Nation's Business

The Small Business Adviser

Blue Chip Firms Turn Risks Into Rewards

Protecting Your Ability To Earn

Achieving Balance In A Home Business

Will Power

Michael Stebbins and Carl Jacobs know the value of estate planning. Dying without a plan could cost their families a bundle in taxes and ruin their nursery business.

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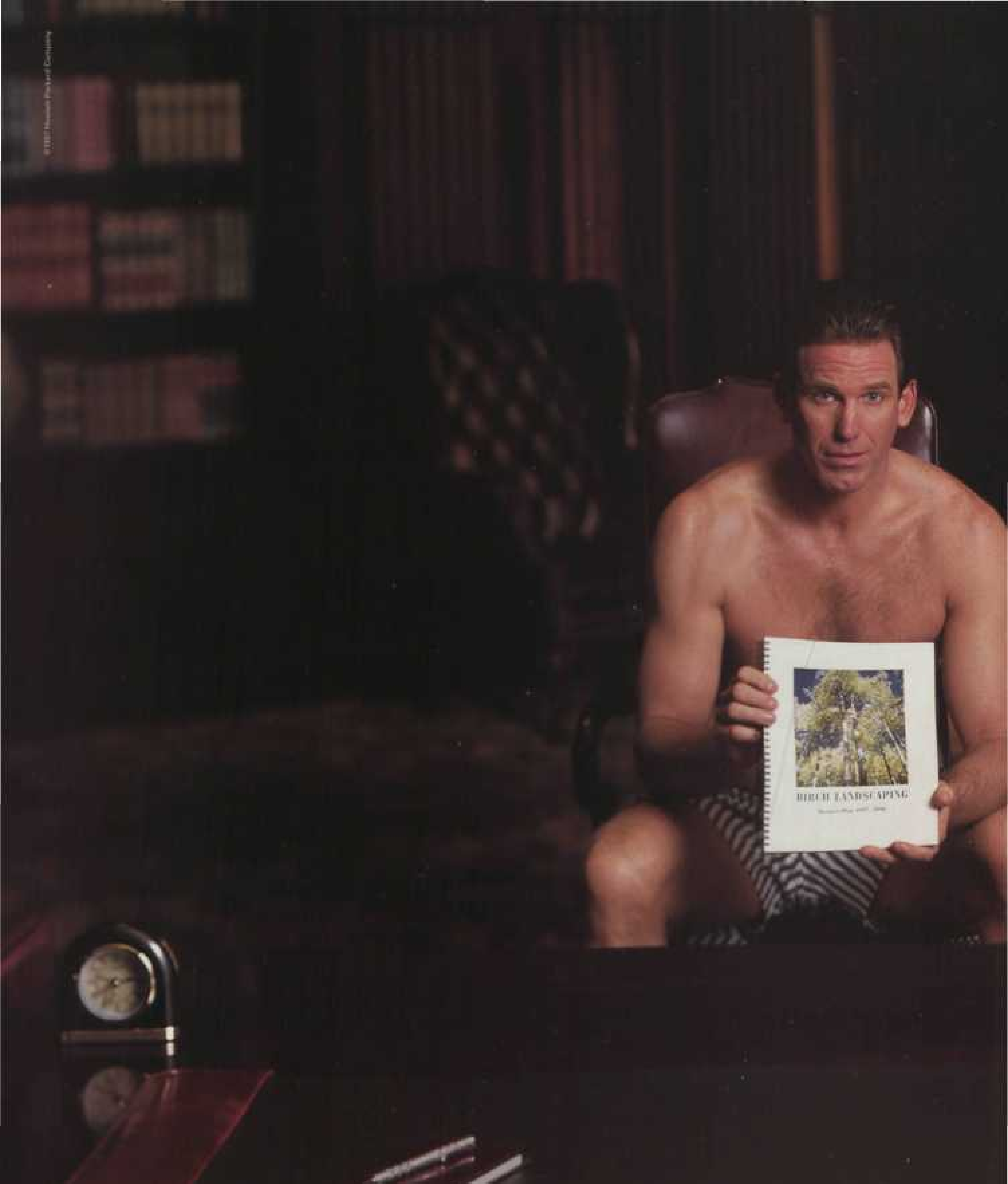

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Washington, D.C.

PHOTO: ©JOHN R. FULTON JR.

To help ensure *that his Dallas insurance agency survives after his death, Larry Davis sold part of the firm to his office manager, Cheryl Morris. With such strategies, owners can minimize estate taxes and make their achievements outlive them. Cover Story, Page 20.*

PHOTO: ©LEE MCDONALD—BLACK STAR

Packager *Bill Cooter and the Postal Service took opposite views on a postal initiative to be competitive. Legislation, Page 38.*

VOL. 85, NO. 4

PHOTO: ERIC FERRO

Time-challenged *customers get front-door pickup and delivery from Margo Sloan's dry-cleaning firm. Franchising, Page 68.*

DEPARTMENTS

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Editor's Note

Don't Put It Off Until Tomorrow

Being the risk takers that they are, many entrepreneurs bet that they won't die soon, that they'll have plenty of time later for estate planning. Of course, they're playing with the devil in the form of Uncle Sam. He's just waiting for the huge take he's going to get when they die. And if recent studies are accurate in finding that high percentages of business owners fail to plan, he's going to get a lot.

If you're one of those bet-hedging entrepreneurs, don't delay. Protect as much of your assets as you can. Otherwise, Uncle Sam is almost certain to be your biggest beneficiary.

You might want to begin by reading our cover story, written by Contributing Editor Randy Myers and beginning on Page 20. It's designed to help you hand down your business to the people you choose.

Remember, Uncle Sam used to want you. Today he wants your money.

In Small Business Financial Adviser, we aim to help you protect your earning power. The likelihood of your losing some of it to a disability is much greater than you may think. Be sure to read this important story, beginning on Page 75.

PHOTO: HANS A. BAUM

On an uplifting note, don't miss the article on the exceptional companies named as national honorees in the 1997 Blue Chip Enterprise Initiative. (The owners, with their awards, are in the photo at left.) Their stories are reported by Senior Editor Michael Barrier and begin on Page 27.

If you think you might be interested in buying a business and want to know what kind of enterprises might prove prosperous, see our special franchising report, beginning on Page 68. Written by Associate Editor Roberta Maynard, it offers an interesting glimpse of potential growth industries.

Mary Y. McElveen

Mary Y. McElveen
Editor

ou're coming from.

Q4 sales are and how to spell "rhythm.")

Our new Microsoft® Office 97 Small Business Edition is based on thousands of hours of interviews with small business owners; we heard all about the wide variety of tasks you have to do in a day—from the mundane to the extraordinary—and this is the software we assembled to help you. It starts with the new releases of Microsoft Excel 97 and Word 97, and adds a few other indispensable applications. Small Business Financial Manager, for example, turns raw numbers into insightful information that can help turn a cash trickle into a cash flow. Publisher 97 will help you create professional-looking brochures, business cards, labels, even Web sites. Microsoft Internet Explorer 3.0 helps you browse the Internet, access all kinds of business resources, drum up new contacts and re-establish old ones. When you want to contact your contacts in person, Automap® Streets Plus will give you a detailed map of how to get there. Finally, Outlook™ 97 desktop information manager organizes your e-mail, your schedule, your connections—basically, your life. With Microsoft Office 97 Small Business Edition taking care of all your busy work, you concentrate on other things—like making your small business into a larger one. For a more thorough tour of Microsoft Office 97 Small Business Edition, just visit our Web site at www.microsoft.com/office/sbe/.

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Nation'sBusiness

Letters

Tackling The Problem Of Substance Abuse

The "Crime And Drugs" section of your February cover story, "Challenges We Face," was a truly comprehensive look at the need to reduce the problems of drug use and violent crime across the nation for all populations—youths as well as adults.

I am amazed at some of the substance-abuse statistics for Illinois. A recent study shows that substance abuse in the workplace costs Illinois employers $4 billion per year and that one out of five employees has a substance-abuse problem.

To combat this devastating problem, the Chicagoland Chamber of Commerce has created the Drug-Free Workplace Program, which helps companies develop their own initiatives against abuse of drugs and alcohol.

During monthly seminars, a Chamber task force helps businesses understand these problems and offers solutions. Businesses receive a guidebook that includes sample drug-and-alcohol policies they can put in place. At the end of the program, a business is certified as a drug-free workplace, and throughout the year it receives additional services to protect the health of employees as well as the company's bottom line.

I hope that other cities and states have or are considering similar programs to assist businesses with this issue. If leaders pull together and address the problem, it can only lead to a safer, healthier, and happier community—not to mention a stronger economy.

Laura Durkalski, Program Coordinator
Chicagoland Chamber of Commerce
Chicago

Education Needs Direction

The "Education" portion of "Challenges We Face" accurately addressed the fact that no one appears to know either why our schools are in trouble or what to do about it. The reason is that we are looking at the problem from the wrong end of the spyglass. Without clear direction in our schools and universities, students are left with educational baggage devoid of cohesion or purpose.

Every industry knows what types of skills it needs. The secret to making our schools work is to communicate these needs to the schools. Students need to know, early on, what skills are in demand and what their career options really are.

If schools serve as a true interactive medium for employers and future employees, everything will fall into place. Students will stop going to school because they are forced to; they will go to school because they want to, and they will be prepared when they graduate.

The trick lies in helping schools establish and maintain this kind of active relationship with employers around the country.

Olivier A. Blanchard
Taylors, S.C.

No 'Either-Or' Solution

Your February cover story observes that on the question of what America should do about crime, drugs, and the synergistic problems they create, "there are two camps: Get tougher, and go easier."

This creates a false dichotomy. As do so many publications and public figures today, you respond to a complex situation with an "either-or" when "and" would be more appropriate. Supporting longer prison sentences, tougher laws, more police and judges, and firmer prosecution does not exclude supporting education, job training, drug-treatment programs, and other ways of keeping people out of prison.

It's time that we as a nation move beyond the simple either-or propositions of both our political parties and begin developing comprehensive, inclusive solutions to the nation's problems.

Robert Brading, Executive Director
Multnomah Community Television
Gresham, Ore.

LETTERS

Punitive Damages A Problem In Alabama

In your January cover story—"Clear Sailing?"—about the small-business outlook for 1997, you had a graphic titled "The Hot Spots—The Best Places To Start And Grow A Business."

As a Birmingham, Ala., native, I was pleased to see that you showed Alabama as one of the top 10 states, Birmingham/Tuscaloosa as one of the top large metropolitan areas, and Huntsville as among the top small metropolitan areas.

As enthusiastic and optimistic as many business owners in Alabama want to be, however, their optimism is severely dampened by the punitive-damages problem in our state.

A recent opinion article in *The Birmingham News* detailed evidence showing that the punitive-damages problem in Alabama is far worse than even its most severe critics could have imagined. The article reported the results of a study showing that over a seven-year period, "Alabama generated the largest and most frequent punitive-damages verdicts ever reported in the United States or in any jurisdiction around the world."

A statue of Vulcan, *the Roman god of fire and metalworking, watches over Birmingham, Ala., but a statue of Justitia, the Roman goddess of justice, might be more in order.*

The article went on to state that the total punitive damages awarded by Alabama trial courts over the seven years was nearly three times the total awarded in the 75 most populous U.S. counties in one year, 1992.

Until the abuses in this area are eliminated, we will continue to have a cloud hanging over the business environment in Alabama.

Alan F. Clark
Birmingham, Ala.

Balanced-Budget Amendment Called A Complicating Factor

It is depressing that your good magazine, in its February editorial, "Budget Balance Is The Gateway," supports a balanced-budget amendment to the Constitution.

Such an amendment would not balance the budget. In fact, it would make it harder to do so. And it would make it much more difficult for the government to manage the budget process and react responsibly and positively to vagaries of the business cycle. A balanced-budget amendment would unduly complicate rather than assist.

I am not a supporter of President Clinton, but I wonder why your editorial criticized him so. After all, the deficit has come down by two-thirds on his watch.

Raymond C. Malley
Senior Group Adviser and
North America Representative
Halla Business Group (South Korea)
McLean, Va.

Another Success Story For SBA Microloans

Like the woman in "SBA Microloans Fuel Big Ideas" [Finding Capital, February], my business partner and I worked through a trying situation and triumphed with the help of a microloan.

About two years ago, we were downsized from our jobs as staff writers and editors for a leading health-care magazine. We were taken by surprise. We had little in the way of savings, a significant amount of debt, and imperfect credit.

Consequently, we believed we were ill-prepared to start our own business. But we weren't.

Reluctant to get another staff job only to be downsized again, we started an outsourcing agency for writers. Thanks to an attractive concept, a strong business plan, and the help of a small-business consultant (who told us about available microloan programs), we were able to finance the company by securing a $15,000 microloan from the Illinois Development Finance Authority, a state agency that provides capital to Illinois businesses.

Without that money and guidance, our start-up would have been a lot more difficult. Thanks for passing along the good word.

Jill L. Sherer, Co-owner
CopyDesk, Inc.
Chicago

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Dateline: Washington

Business news in brief from the nation's capital.

By Stephen Blakely

CORPORATE SUBSIDIES

Pro-Business Programs Attacked From Two Sides

Another assault is under way against federal spending programs favored by business but derided by opponents as "corporate welfare."

The current attack may be the most formidable yet because the traditional protagonists, liberal-leaning interest groups and their congressional allies, have been joined by several conservative-minded organizations and members of Congress, led by House Budget Committee Chairman John Kasich, R-Ohio.

Kasich and the Stop Corporate Welfare! coalition—made up of 10 liberal and conservative interest groups—have targeted $11.5 billion of spending over five years. At a recent news conference in Washington, Kasich said eliminating that proposed spending would represent "the next step toward ending welfare as we know it."

Referring to last year's overhaul of the federal welfare program, Kasich said: "We've reformed welfare for those who don't have money or powerful Washington lobbyists. Now it is time we did the same thing for welfare programs that aid the rich and powerful at the expense of taxpaying families."

Business Groups Respond

The U.S. Chamber of Commerce and other business groups have denounced the proposed spending cuts as "careless and shortsighted." Most of the programs under attack, such as those supporting U.S. exports, enhance America's competitiveness and protect U.S. jobs, says Willard A. Workman, the Chamber's vice president for international affairs. "Cutting these programs will hurt America's efforts to expand in the global economy, ultimately locking out businesses' access in emerging markets."

Past attempts to scale back corporate subsidies have met with little success in Congress, but the Kasich initiative is different: It builds on last year's sweeping rewrite of federal welfare programs for the poor; it unites a diverse and bipartisan group of supporters; and it helps lawmakers who are desperately looking for ways to balance the federal budget.

Senate Majority Leader Trent Lott, R-Miss., hinted in a speech early this year at the U.S. Chamber's headquarters in Washington that some cuts in business-oriented spending programs and tax-break provisions may be inevitable. "There are some programs that benefit corporations in America that we're going to have to take a look at," he told the audience of business people. "I'm prepared to do that, knowing that many of you in this room squirm a little bit when I say that. I don't call it 'corporate welfare,' but I do ask the question: Can we afford it any longer? Do we need it any longer?"

Small Companies Affected

Although many programs under attack by the Stop Corporate Welfare! coalition primarily favor large companies, some benefit small firms. For example, the Overseas Private Investment Corp., which provides loans, loan guarantees, and political-risk insurance to U.S. exporters, has programs aimed at helping small companies. In addition, farmers and rural businesses benefit from federal water projects and from the Rural Utilities Service, which helps finance electric utilities.

While none of the programs targeted by Kasich would be wiped out under President Clinton's 1998 budget plan, the president did call for repealing a number of "unnecessary corporate subsidies and other unwarranted tax breaks"—mostly for big business and investors.

Coalition Is Diverse

The coalition includes liberals, such as consumer advocate Ralph Nader, and conservatives, such as the National Taxpayers Union, as well as environmentalists, such as Friends of the Earth, and pro-business groups, such as the Competitive Enterprise Institute.

Kasich touted the significance of getting such "an unlikely group" to agree on specific spending cuts and said the list "represents just the start of efforts to eliminate corporate welfare." He invited other lawmakers to suggest more cuts.

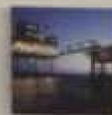
The Kasich initiative may improve prospects of a Senate bill that would create a nine-member Corporate Subsidy Reform Commission; the panel could be a vehicle for escaping the inevitable political battles over cuts in corporate subsidies.

Sponsored by Sens. John McCain, R-Ariz., and Russell Feingold, D-Wis., the legislation would establish an advisory panel modeled after the politically successful commission on military-base closings. The bill would give Congress four months to approve, reject, or amend the commission's recommendations for eliminating pro-business programs. NB

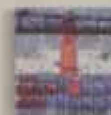
Endangered Business Programs

The Stop Corporate Welfare! coalition, composed of 10 interest groups—some conservative, others liberal—wants Congress to kill many federally supported projects and programs that benefit business, for an estimated savings of $11.5 billion over five years. Following are some of the endangered programs and their costs.

Highway Demonstration Projects. Miscellaneous construction and improvement efforts; $4 billion.



Fossil Energy Research. Aimed at finding new ways to get energy from oil, coal, and gas; $1.37 billion.



Market Access Program. Subsidies for overseas advertising by U.S. food exporters; $347 million.

International Monetary Fund General Agreements To Borrow. Money that developing countries can borrow to pay off loans, many to U.S. banks; $3.5 billion.

Clean Coal Research. An effort to develop new techniques for controlling pollution from utility companies that burn coal; $500 million.

Overseas Private Investment Corp. Provides loans, loan guarantees, and insurance to companies doing business in risky developing countries; $281 million.

ENTREPRENEUR'S NOTEBOOK

Turning A Loss Into A Gain

By Paula Brown

For any business owner, losing a major customer can feel almost like having a loved one die suddenly. It elicits a range of emotions—from shock to sadness to disbelief.

But behind the grief lie the questions "What now?" and "Where do we go from here?"

It's never good to lose a customer, especially for a young company, but some customers are tougher to lose than others. That was the case for JB Chemical Co. Inc., the North Las Vegas, Nev., specialty chemical manufacturing and distribution firm that my husband, Jim, and I started in 1981. (Jim is the company's general manager and treasurer.)

In 1986, we lost one-third of our revenues when a major account closed its Nevada plant and consolidated manufacturing operations in Tennessee. Not only was this one of our original accounts, but it also had been an integral part of our growth from a home-based business to a company with four employees, a 3,500-square-foot warehouse, and construction of a 20,000-square-foot office/warehouse under way. The customer had represented $15,000 to $20,000 in monthly revenues.

Today, we have $2 million in annual sales and 25 workers. In overcoming that early setback, many of our survival tactics fueled our growth.

The key to surviving the loss of a major customer is to make sure you don't let it bring you down. Here's how:

You can cry, but don't wallow. Don't allow yourself to be swallowed up by grief. Step back and view the situation objectively. List its pros and cons, and consider what can be learned from the experience and what good could come out of it.

Look for ways to diversify. It quickly became apparent that we had put too many eggs in one basket. Consequently, we diversified our product line—creating and manufacturing more of our own products—and our target markets. As we increased production, we also diversified our suppliers to guard against being overly dependent on too few of them.

Staying cool *helped Paula Brown find a silver lining when her chemical company lost a major customer.*

Rethink your position in the company. Rather than remain in sales, I began managing the office full time and developing name recognition for the company through the news media and business contacts. Changing roles allowed me to focus on how the company was going about its business.

Start networking. For promotional reasons and for moral support, we became active in business organizations such as the local chamber of commerce and other business-owner groups. Networking introduces your business to people who might not know about it otherwise, and it helps you develop professional relationships that can increase your knowledge and offer support.

Put your money where your mouth is. Reduce overhead wherever possible. The more modestly you live and the more you do yourself, the more you can funnel back into the business. By stocking shelves and doing other chores ourselves, we not only saved on payroll costs but helped employees see our commitment to the firm.

Regroup but don't retreat. You may have to rethink your timetable, but continue to position yourself for growth. Cutting overhead doesn't always mean cutting jobs or service to customers. We avoided firing anyone, and we hired the talent needed to expand our markets and product lines. One of our hires was the main sales representative of a key competitor, and his arrival helped rebuild our sales. Without the addition of new talent, our diversification efforts might have failed.

Don't panic; be patient. It's natural to worry, but staying cool is vital to keeping you and your employees productive. Remember that it took time to build sales initially, and it will take time to cultivate new sales. We figured it would take two years to recover from our loss, and that's indeed what it took. Hard work and patience are their own rewards. NB

Paula Brown is president of JB Chemical Co. Inc. in North Las Vegas, Nev. She prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

Surviving the departure of a big account can be an impetus to take the steps that lead to growth.

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THE NEW '97
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Managing Your Small Business

Attracting workers to your town; defining success for a branch office; planning a name change.

By Roberta Maynard

RECRUITING

A Not-Too-Big City Shows Its Bright Lights

If your city just doesn't have the lure of, say, the Big Apple, how do you attract employees? A group of technology businesses in Columbus, Ohio, is testing an image-building initiative that the firms hope will provide an answer.

"Having an unemployment rate of under 3 percent makes it difficult to fill recruitment needs locally," says Virginia Stanley, director of human resources at Applied Innovation Inc. The firm, in the Columbus suburb of Dublin, provides data-networking equipment for telecommunications carriers.

PHOTO: CJIM CALLAWAY

Hello, Columbus: *Virginia Stanley of Applied Innovation Inc. and Bill Holley of the Greater Columbus (Ohio) Chamber of Commerce display a brochure they helped create to showcase their city.*

Stanley and other human-resources professionals at local high-tech firms who began a discussion group two years ago found recruitment was a common problem. With help from the Greater Columbus Chamber of Commerce, the group created a plan to market Columbus as an enjoyable place to live and one brimming with high-tech jobs.

Eleven companies helped finance the production of an 8-by-11-inch color brochure featuring a few of the firms' employees who say they are glad they left other cities for Columbus. This theme was reiterated in advertisements the group placed in technology publications.

The firms are using the brochure in their recruiting efforts. Applied Innovation, for example, sends it with company literature to out-of-state job candidates, search firms, and universities.

The 11 companies, plus two sponsors, Ohio State University and the Columbus Chamber, are featured on the back of the brochure. In addition, the companies' Web sites are linked to the Chamber's.

"Ordinarily, you'd expect us to recruit businesses [to Columbus]," says Bill Holley, the Chamber's executive vice president for economic development. "We do that, too. But the reality is we have thousands of high-tech jobs. Now we need to help our member companies thrive here."

The results of using the brochure, which was produced early last fall, are still hard to gauge, but the publication has been in demand: About 8,000 of the 9,500 printed have been distributed or sold.

Now there are plans to update the brochure and to create a CD-ROM containing a "virtual tour" of the city's educational, cultural, and other attributes.

"The type of people we're looking for want to keep their technological skills sharp," says Stanley. "We're trying to make it clear that there are many technology companies here to provide advancement opportunities after people move here. One of the stumbling blocks we've had in recruiting was people not wanting to live in Columbus because they didn't know about us. This brochure helps us with that." ■

EXPANSION

Fostering Success In A Branch Office

A small number of factors determine whether a satellite office will be successful and profitable, according to a 1996 survey of 32 professional firms with 246 such offices. The survey, conducted by Zweig White & Associates, Inc., a research firm in Natick, Mass., found that successful satellite offices were:

■ Usually started by the company's present owners rather than acquired from another firm.

■ Most often managed by the firm's owner or principal rather than by a nonowner.

■ More likely than their unsuccessful counterparts to have had a hot start—that is, the company had work in the region before opening a branch office there.

Success in satellite offices was attrib-

uted most frequently to strong leadership in the office (16 percent), a strong client relationship (16 percent), and a strong market (14 percent). Other factors frequently cited were company name recognition and having the support of home-office managers.

Conversely, the most common explanations for an office's failure were poor leadership (39 percent) and a weak market (21 percent).

The most important traits of an effective branch-office manager, according to CEOs participating in the survey, are the ability to think like a small-business entrepreneur (56 percent) and having strong marketing skills (34 percent).

The survey indicated that the ideal branch manager might be one who believes that the success or failure of the office is within his or her control and that the office would thrive even if it were not part of the parent firm.

The firms surveyed were in the architectural, engineering, and environmental-consulting businesses. ■

IMAGE

Should You Change Your Company's Name?

Adopting a new corporate handle could indicate a change in company ownership, a radical shift in focus, or the need to break from past associations. Whether a name change is for positive or negative reasons, it should be planned and handled with care.

The Arbor Group, a human-resources consulting firm in New York City, was less than three years old when its managing partners decided the company had outgrown its name. It had expanded into international markets and created partnerships with other businesses to broaden its range of services. In December, the firm changed its name to Partners in Human Resources International.

Amy Friedman, one of the firm's managing partners, offers these pointers on making such a change:

■ Get advice. Friedman was able to turn to knowledgeable sources, including a previous employer who had been through a name change. CEOs without that experience may want to consult a name-change expert.

■ Look closely at your identity. Evaluate your product offerings, customers, and direction. Weigh what you may gain or lose by changing your name.

■ Do the legal legwork. Have trademark checks done on your proposed new name.

■ Plan for changes in advertising, stationery, and perhaps a new company brochure and logo.

Most important, consider how clients and others will view the change. "Eyebrows are raised whenever there are changes," says Friedman. "The first question is often: Did the partners change? So the [name] change has to be managed. There has to be an explanation for it, and everyone on staff must understand it so that a consistent message is given out."

To ensure such consistency, Friedman's firm called each of its 80 clients and sent them the firm's new brochure.

Finally, Friedman says, it's important for the people who run the firm to be committed to and positive about the change to avoid giving any mixed signals. ■

ENTREPRENEURSHIP

Getting Youths Down To Business

Encouraging young people to learn about business can help them become better employees or family-business members. These days, they don't have to wait until their first college business course or their first job to learn how business works. Some organizations have programs designed to fan the entrepreneurial spark in children as young as 3.

For example, a national competition in which teenage girls draw up their own business plans enabled Victoria Groves to get her first taste of business at age 15 in her hometown in northeastern Massachusetts. A runner-up, she entered again two years later—with a different plan—and won the competition.

Student *Victoria Groves is redesigning this Lowell, Mass., diner's menu.*

She used the winning plan to start her own desktop publishing business. Now 18 and a freshman at the University of Massachusetts in Amherst, Groves runs her business on the side, handling projects such as a new menu design for a local diner.

Here are just a few of the groups that bring business and youths together:

■ An Income of Her Own (AIOHO) in Burbank, Calif., runs the annual business-plan competition. Its goal is to help girls start learning about economic power and financial well-being. AIOHO also offers a summer camp for girls ages 14 to 18 that combines traditional camp activities with a focus on business-development and leadership skills. For information on the camp, call (508) 463-0259; for information on the business-plan competition, call 1-800-350-2978.

■ The National Foundation for Teaching Entrepreneurship, Inc. (NFTE) in New York City offers programs through public schools and has summer camps for junior-high and high-school students. To find out about programs in your area, call the NFTE at (212) 232-3333. Also available through the NFTE is *The Young Entrepreneur's Guide To Starting and Running A Business* (Times Business, $15), by the NFTE's chief executive, Steve Mariotti.

■ Business Cents Resources in Pittsburgh offers day-camp programs for children ages 3 through 16 to teach them about money, leadership, marketing, and other business topics. For information, call 1-800-672-4639.

■ The Hugh O'Brian Youth Foundation helps high-school sophomores learn leadership skills. See "Riding Into The Sunrise," in the March *Nation's Business.*

■ Entrepreneurs from their early teens to their early 30s can do on-line networking by joining a Boston-based group called the International Directory of Young Entrepreneurs. Annual membership, including access to and a listing in the group's database, costs $25. For information, call (617) 867-4690 or visit the group's World Wide Web site at *www.idye.com.* ■

NB TIP

Promotion Know-How

If your publicist lacks an understanding of your business, consider the approach used by Jeff Shibley, vice president of Yours Truly Restaurants in northeastern Ohio. To help the firm's free-lance publicist develop promotions that are right on target for the family-owned chain, he asked her to set aside some weekend time to work in one of the stores as a hostess, where she experienced firsthand the restaurants' appeal. NB

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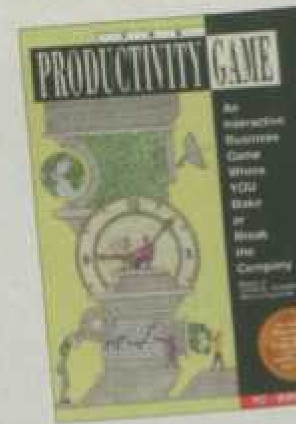
THE STRATEGY GAME

Keep this troubled, $150 million medical-instruments company from going out of business and perhaps turn this dog into a winner. Use your best judgment, business savvy, and raw nerve to make strategic decisions involving competition, innovation, management, acquisitions, alliances, etc. See the financial effects of your decisions.

Disk, Windows .... *#123*
CD-ROM, Windows .... *#133*



THE PRODUCTIVITY GAME

You're the new CEO of Faragut Communications and Entertainment Company (FaraCom), with sales of $500 million a year. Profits have eroded for three years. With the Company's founder demanding quick results, you could gain partial ownership of the company if you solve FaraCom's problems quickly. If you fail, you drive the business into bankruptcy and ruin your career.

Disk, Windows .... *#124*
CD-ROM, Windows .... *#134*

THE ORGANIZATION GAME

Prepare to consider over 75 decision points and 30 outcomes that test your savvy, judgment, and nerve. You are the CEO of CyTech, a $4 billion computer and electronics company whose growth in the phone-fax-computer business has led to organizational disarray. Your mission: reshape the fragmented and polarized company before it collapses. If you succeed, CyTech dominates the world of personal and corporate communications. If you fail, you destroy CyTech and your career. You'll make tough choices involving issues and concepts such as employee autonomy, empowerment, accountability, and change.

Disk, Windows .... *#125* *CD-ROM, Windows* .... *#135*

Making It

Growing businesses share their experiences in creating and marketing new products and services.

The Art Of Branching Out

By Cheryl Jarvis

"Don't you wish you had an empire like Martha Stewart?" a woman asked Mary Engelbreit during the St. Louis artist's recent book tour. Engelbreit responded without missing a beat: "But I do."

It would be hard to argue otherwise. Engelbreit—illustrator, muse, and business tycoon—presides over a conglomeration of companies. Through Mary Engelbreit Studios, she produces greeting cards (14 million sold annually worldwide), gift books, decorating books, calendars, home furnishings, and decorative accents ranging from teapots to area rugs. Her designs appear on 350 products. *Mary Engelbreit: The Art And The Artist* (Andrews and McMeel, $29.95), published in October, went into a second printing after three weeks.

Through Mary Engelbreit Cos., she owns and operates retail boutiques in upscale malls in Chicago, Dallas, Denver, Atlanta, and St. Louis. And through Universal-Engelbreit Communications, formed with Universal Press Syndicate last year, she produces a bimonthly lifestyle magazine, *Mary Engelbreit's Home Companion*, which debuted in September with a circulation of 100,000. A newspaper column on decorating and collectibles goes into syndication May 4.

Though Engelbreit won't reveal corporate revenues, her empire generates annual retail sales of $90 million. She says revenues have increased more than 200 percent over the past five years.

PHOTO: BARBARA ELLIOTT MARTIN

She's planted *in St. Louis, but Mary Engelbreit's art blooms worldwide.*

At the heart of the business are Engelbreit's trademark designs—intricately patterned borders framing messages both homespun ("Bloom Where You Are Planted") and quirky ("Let's Put the Fun Back in Dysfunctional"). Her cards have appeared in feature films and TV movies. Rosie O'Donnell, Naomi Judd, and Mary Tyler Moore are fans. Cartoonist Charles Schulz keeps one of her designs over his drawing board. Women have traveled more than 1,000 miles for her book signings.

Engelbreit, 44, didn't plan or fantasize about any of this. "All I ever wanted to do was make a living as an artist," she says, "drawing what I wanted to draw."

According to family lore, Engelbreit was drawing from the time she could hold a pencil. By the time she was a teenager, she was making one-of-a-kind greeting cards and peddling them to a local gift shop for a quarter apiece.

After a "remarkably quick decision not to go to college," Engelbreit says, she worked short stints as a commercial artist. Dreaming of becoming a children's book illustrator, in 1977 she took her portfolio to New York publishing houses. Rebuffed, she was advised to look into greeting cards.

"At first, I was insulted," she says. "But when I realized there was a market for these little one-shot illustrations, I changed my mind."

Back in St. Louis, she started working for a greeting-card company that paid her $50 a card and kept the original drawings. When the second company she approached, Portal Publications in San Francisco, sent a contract guaranteeing her royalties, she realized her naiveté the first time around. After four years of drawing for Portal, making an average of $15,000 a year on sales of $300,000, she decided she could do better on her own. In 1983, she founded ME Ink, which is now her registered trademark.

Then she made two other smart moves: She found people with the business savvy she lacked, and she retained legal and artistic control over her work. In 1984, she teamed with a marketer, who secured a $60,000 bank loan and found distributors while she drew. After two years, annual revenues exceeded $1 million.

In 1986, the partners licensed the exclusive right to distribute her greeting cards to Sunrise Publications in Bloomington, Ind. The contract guaranteed Engelbreit 5 percent royalties on her card revenues for the next 15 years. She retained the name ME Ink and kept the copyright on all her

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designs. After the lucrative deal with Sunrise, she bought out her partner and urged her husband, Phil Delano, to become her business manager. Looking for a change from his career as a juvenile-court social worker, Delano said yes.

Today, Engelbreit's contracts with 45 licensees constitute the majority of her companies' revenues. All the licensing contracts provide her with an upfront fee plus 5 to 12 percent of wholesale revenues.

Among Engelbreit's ventures, there have been only two major missteps. A mail-order catalog did not make money, and a retail store in St. Louis' Union Station closed when sales didn't meet expectations.

Mary Engelbreit Studios is housed in a 12,000-square-foot, renovated Greek Orthodox church in University City, a St. Louis suburb. Engelbreit's staff of 81—29 of them are at the home office—is, like her audience, mostly female. Six in-house artists reformat her designs for various products. Delano retired from the day-to-day business in January but remains as chairman. Gregory D. Hoffman, formerly the companies' attorney, came on board two years ago as CEO of all the enterprises except the venture with Universal Press Syndicate. Engelbreit is president.

The downside to the companies' phenomenal growth is that "my drawing time has suffered," Engelbreit says. In 1995 she moved her studio back into her home, where she can concentrate more easily. She draws most days that she is in St. Louis.

What's next? In addition to creating 30 to 40 designs a year for Sunrise, the suburban mom—she has two teenage sons—is eyeing a second building to house her magazine staff, and she has been approached about creating an animated television show. She has a line of baby bedding on the drawing board, as well as another children's book. Her lavishly illustrated version of Hans Christian Andersen's *The Snow Queen* (Workman Publishing, $15.95), released in 1993, made the children's bestseller lists of *Publishers Weekly* and *USA Today*.

"At the beginning, the business end of it scared me," says Engelbreit. "But when I learned to trust my instincts, I discovered I liked it. Running a business takes creativity, too." ■

Cheryl Jarvis is a free-lance writer based in St. Louis.

Something Old, Something New

By Michael Barrier

Think of people who deal in the "previously owned," and you may not think of an alert, forward-looking business—one like InteLex, for instance. It deals in used telephone equipment, and its CEO, Roger A. Snyder, expects company revenues to reach $20 million in 1997, just six years after he founded it.

Snyder, 41, an engineering graduate of the University of Arkansas, spent 10 years as a commodities trader until, he says, "I was one of the lucky ones chosen to make a career for himself" during the recession of 1991.

He noticed a newspaper ad for a job with a telecommunications company. "What they wanted us to do was sell their out-of-service equipment," he says. "After a couple of months of working for these people, this light bulb clicked: They know a lot about telephone equipment, but they don't know anything about how to trade it."

Snyder thought he did know how—by drawing on his experience as a commodities trader. He left his new job after nine months and started InteLex in his hometown of Little Rock, Ark.

"There are hundreds of companies that buy and sell used equipment," he says, "but utilizing trading strategies that are common in commodities markets—I'm not aware of another company doing it like we do it."

Some of his employees deal only with large users—corporations and governments—that may need equipment or want to sell it. Others stay in touch with telecommunications companies, which may be trying to get the highest possible trade-in value for a potential customer for new equipment.

InteLex works with a network of 90,000 customer contacts. When Snyder's representatives locate equipment for sale, or a need for equipment, "they write up a trade ticket," he says. "They turn that ticket in to the trade desk"—there are four of them, each specializing in a different type of equipment—"and that trader either sets the price on that equipment or goes to work trying to locate that equipment with another dealer."

Used telephone equipment *will bring in $20 million for Roger Snyder's firm this year.*

A typical transaction might be for as little as $3,000 to $5,000. For a large used system, though, the total might be $250,000 to $500,000.

InteLex handles the used equipment itself, and it has what Snyder calls "a fairly extensive remanufacturing operation." Sam Wood, in charge of refurbishing and testing the equipment since InteLex started, says the firm's standards are unsurpassed "because if we send something out in the secondary market that doesn't work, we've lost that customer."

As with computers, the "usable cycle" of telephone equipment "is getting shorter every year," Snyder says. But, again as with computers, most users don't need the very latest technology. As computers and telephones meld, he suggests, the life cycle of telecommunications equipment will become even shorter, and the opportunities to buy and sell will multiply accordingly.

"We're trying to provide more than just a market for used equipment," Snyder says. "We're trying to become a solution provider." To that end, InteLex also sells new equipment. Eventually, Snyder believes, InteLex may handle used equipment mainly as a service to customers whose real value to the company is as buyers of new equipment.

Snyder is talking with possible sources of venture capital, but today's InteLex, with around 40 employees, is already a far cry from the company that he started in September 1991 with a capitalization that he puts at $100. He bought used equipment on 30-day terms, he says, and sold it c.o.d., and in that way "we bootstrapped our way on the cash flow."

Given the rapid pace of change, no one in a technology-intensive business can rest easy, even when the company has grown so fast that it has moved to larger quarters five times in its first five years. "It was scary in the beginning," Snyder says, "and it's scary today." ■

Where Cooking Is Academic

By Sharon Nelton

Even though the teaching at the New England Culinary Institute (NECI) is modeled after that of a medical school, CEO Francis Voigt says that running a school to train chefs and cooks is more like running an opera.

Based in Montpelier, Vt., the school has more than 500 students, and many of its instructors are chefs with impressive backgrounds and egos to match. "The challenge," says Voigt, "is to orchestrate the performance, because it's not just the lead singer who's got to be in good form. The entire cast does."

Neither Voigt nor his partner, John Dranow, the chief operating officer, cooks. Voigt was dean of summer programs at Goddard College in Plainfield, Vt., in the late 1970s and Dranow was director of the school's summer writing program when they began to explore the possibility of running a business together. They considered and rejected several ideas—including a deer farm and a brewery.

When a colleague's husband suggested a culinary school, it made some sense. Dranow and Voigt were educators, after all.

Dranow visited two of the country's most prestigious cooking schools—the Culinary Institute of America in Hyde Park, N.Y., and Johnson & Wales University in Providence, R.I.—and found that they had waiting lists. He asked former students what they would do if they could redesign the schools' programs. "We heard over and over again, from all of them: smaller classes, more hands-on training," says Voigt. "So that's what we did."

To raise money for NECI, Dranow and Voigt secured a $100,000 line of credit, putting up their houses and cars as collateral.

Launched in 1980 with seven students, NECI follows the medical-school approach by offering students intensive experience in a hands-on environment. At NECI, this means restaurants and other food-service facilities that the institute leases or owns in Montpelier and in Essex Junction, Vt., where it operates a second campus. These, in effect, form NECI's "university hospital," says Voigt. Two-thirds of NECI's annual revenues, which exceed $17 million, come from tuition, and the other third comes from the institute's enterprises.

A student-teacher ratio of 7-to-1 assures that each student receives personal attention, and additional training is provided through two six-month internships at restaurants and hotels in the United States and elsewhere, including France and Belgium.

Besides a two-year program leading to an associate degree in culinary arts, NECI offers a bachelor of arts degree in service and management for students who want to own or manage food-service operations.

PHOTO: ©ALAN JAKUBEK

New England Culinary Institute *founders Francis Voigt, left, and John Dranow check on lessons learned at the Vermont cooking school by student Susan Hoss.*

Voigt says he and Dranow recognized that "many chefs are inclined to eat too much, and a number are alcoholics." As a preventive, NECI requires students to set physical-fitness goals and to participate in a wellness program. The school also gives its 300 teachers, administrators, and restaurant workers health-club memberships.

NECI places 96 to 100 percent of its graduates in jobs, and alumni hold positions in establishments such as the Rustler Lodge in Alta, Utah, and the trendy Red Sage restaurant in Washington, D.C.

Robert Bennett, a 1984 graduate, was fresh out of high school when he enrolled at NECI. Today he is the executive pastry chef at Le Bec-Fin in Philadelphia, one of the country's stellar French restaurants.

The school "set the groundwork for everything I know right now," he says. He speaks highly of the student-teacher ratio and the personalized training it helped provide. "That was a big plus."

Voigt and Dranow note some of the other reasons for NECI's success:

■ Their recognition that a school such as theirs is a business and faces all the competitive pressures and management demands of any business.

■ An emphasis on user-friendly information about the school. The school catalog, for example, is not only informative but also inviting and lively. It is full of photographs, and praise from famous chefs such as Paul Bocuse, Julia Child, and Pierre Franey adds a touch of glamour.

■ A focus on the customer. NECI employees are expected to set an example for good customer service, and students are required to be attentive to customer needs.

Two years ago, NECI was named a state honoree in the Blue Chip Enterprise Initiative. The program, which recognizes firms that have overcome adversity, is now sponsored by Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company, and by the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the half-hour morning TV news program presented by MassMutual and the Chamber.

Attending NECI carries a hefty price tag, although financial aid is available. Tuition, room, and board for the two-year program in the culinary arts is $38,790—not including the cost of books and knives. NB

COVER STORY

Where There's A Will . . .

By Randy Myers

Howard Hughes left an estate worth an estimated $2 billion when he died in 1976. What the reclusive industrialist didn't leave was a will. It took nearly 15 years and $30 million in legal fees to prove that various wills that surfaced after his death were forgeries and to settle Hughes' affairs. His heirs had to pay millions more in death taxes than would have been necessary had Hughes taken steps to avoid them.

The fact that Hughes wound up giving vast sums of money to tax authorities and lawyers was ironic—he was reported to have disliked both. But it also illustrates one of the universal truths of estate planning: No matter how poorly you plan for the disposition of your estate, the outcome will likely be worse if you don't plan at all.

When you fail to plan, government officials—or perhaps your now-squabbling heirs—decide what happens to the assets you have built up over a lifetime. The result, as shown by the Hughes fiasco, can be ugly.

And it's not only the famous or their families who can suffer. Michael Stebbins and Carl Jacobs, co-owners of Shiloh Nurseries Inc. in Emigsville, Pa., have executed a detailed business-succession plan for their company, in part because they've seen what might happen if they don't.

When the two bought their nursery in 1969, it was a well-established, 32-year-old concern. But the former owner had died without planning his estate, and his heirs, unable to agree on how the company should be run, had parted company and left the business in a diminished state.

Today, as it celebrates its 60th anniversary, Shiloh Nurseries is again healthy and much, much larger than it was when Stebbins and Jacobs entered the picture. The two intend for it to stay that way. (For more details on plans for the firm, see "The Seeds Of A Smooth Transition," Page 25.)

While Shiloh Nurseries survived—albeit outside the founding family—many other companies do not weather poor estate planning even that well.

Consider the California man who spent his life building a successful construction business but failed to do any succession planning with his four children—the son who worked with him and another son and two daughters who did not. Although the patriarch wanted the first son to take over the business someday, he never formalized that wish. When he died unexpectedly, ownership of his company was divided equally among the four children.

"The other kids said they didn't want to keep this business going, that their brother might run it into the ground," says Curtis Ford, a business- and estate-planning professional in Mill Valley, Calif. "So they sold out, and this fellow [the first son] lost his entire career. And when you liquidate a construction business, there's not much to liquidate—a couple of bulldozers, some buildings, that's about it."

The California firm's story is a common one. According to Ford, only about one-third of successful family businesses survive into

PHOTO: T. MICHAEL KEZA

At Shiloh Nurseries *in Emigsville, Pa., co-owners Carl Jacobs, left, and Michael Stebbins have a detailed succession plan in place.*

While it may be true that the only certainties are death and taxes, there are steps you can take to soften the blow from the latter when you do pass away.

the second generation, and only about 20 percent make it to the third generation.

Not all fail to survive for lack of estate planning, of course. Some business owners prefer to sell to outsiders, and many owners do so if they have no children. Some businesses go under for the simple reason that they are badly run. But poor estate planning is often to blame when a family business fails or falls into outside hands.

In some cases, like the California example, the surviving family members disagree about how to run the business or who should run it. In other cases, the next generation finds that it just can't afford to keep the business. Why? Because federal estate taxes can be crushing.

The first $600,000 of an estate goes untaxed, but after that the levy starts at 37 percent and climbs in stages to 55 percent for estates valued at more than $3 million. (See the top chart on Page 22.) State death taxes are usually minimal, but a high-tax domicile such as New York can add 6 percent to the bill.

The math is frightening. Suppose you own a business worth $5 million and it represents a substantial part of your net worth. It's possible that the only way to pay estate taxes equal to about half that amount would be to sell the business. And unless your heirs have already become wealthy, they won't be the ones to buy it.

Of course, even when there's no family business at stake, few people like the idea of giving more than half their estate to the Internal Revenue Service when the assets could have gone to their children, grandchildren, or favorite charities instead.

The good news is that much of your hard-earned estate can go where you want it to go. Through the judicious use of wills, trusts, insurance, and other planning techniques, you can minimize the taxes due upon your death, and, where applicable, you can ensure that your business is inherited by the person or people you choose.

An Estate Plan's Cornerstone: The Will

It all starts with the drafting of a will. This is the legal document that describes how you want your assets to be distributed upon your death. Because a will must conform exactly to guidelines established by the state in which you live, it should be prepared by a knowledgeable attorney. If it doesn't meet the guidelines, it could be declared invalid during probate, the process in which a court decides whether the will is valid and enforceable.

Every will should name an executor for the estate of the deceased. The executor inventories the decedent's assets and has them appraised, sees that the necessary estate taxes are paid, and distributes the remaining assets according to the provisions of the will.

A friend or family member may be able to handle the job, although for very large estates (those valued in the millions of dollars and higher), an attorney or other professional may be a more appropriate choice. A professional's fee for doing the work is typically 3 to 5 percent of the value of the estate, based on state-mandated guidelines.

In addition to naming an executor, wills often name a guardian and a trustee. A guardian is the person who will care for your minor children should you die before they reach adulthood. A trustee is the person who will administer any trusts that have been established by your will for the benefit of your heirs or your favorite charities.

Choosing a guardian is highly personal; you want someone who shares your values and is able and willing to take on the responsibility of caring for your children.

Choosing a trustee is somewhat less personal but no less important. Trustees should be financially savvy, since their job is to manage and oversee the distribution of the assets you place in trust for the benefit of others. The trustee need not be an accountant or a professional investor but must be smart enough to hire competent advisers when necessary.

A trustee must also be sensitive to your personality and the wishes expressed in your will. He or she may be called upon to decide, for example, whether a vacation to Disneyland for your son and his guardian is an appropriate reason to tap into the child's trust, or whether a surviving spouse should be able to withdraw money for, say, plastic surgery or a new sports car.

If you aren't careful about whom you choose to administer your affairs, problems can ensue.

Tactics For Paring Estate Taxes

While a will can ensure that your estate will be divvied up according to your wishes, it can't, by itself, ensure that Uncle Sam won't first take a big share of your es-

tate in taxes. To prevent that, you must rely on other strategies.

While there are many from which to choose, the underlying goal of each is to get some portion of your assets out of your estate, either before your death or at the time of your death, so that those assets won't be subject to estate taxes.

Ideally, those assets will go to your heirs or your favorite charities. And ideally executed, your tax-minimization efforts will reduce your estate to $600,000 or less, freeing it from any estate tax.

One of the simplest ways to accomplish that is simply to give your money away. The Internal Revenue Service allows you to give as much as $10,000 per year to each of your children and grandchildren with no tax penalty. Your spouse can do the same. Thus, a married couple with five children and grandchildren could give away $100,000 a year with no tax consequences.

Of course, if you have a truly large estate, such giving will make only a modest dent in your assets. And you may not like the idea of giving away money today without knowing if you might need it tomorrow.

If either case applies to you, you'll need an alternative strategy. For most people, that means putting some of their assets into one or more trusts.

Trusts are legal entities in which one person (the trustee) holds property for the benefit of another (the beneficiary). The trustee decides whether and when any money can be taken from the trust and given to the beneficiary—usually in accordance with the terms of the will that established the trust. But no will can foresee every contingency, and trustees often have wide latitude in making their decisions.

The most popular example of the genre is the bypass trust, which effectively doubles, from $600,000 to $1.2 million, the amount that a married couple can leave tax-free to their heirs. Here's how it works:

Without a bypass trust, you can leave your entire estate to your spouse free of taxes, so long as he or she is a U.S. citizen. But when your spouse dies, only $600,000 of his or her estate can go to your heirs without a tax liability. In effect, you have wasted your $600,000 exemption.

To avoid that, you and your spouse can each create a trust that will be funded upon death with up to $600,000 of your own assets. You name each other as beneficiaries.

Suppose you die first. Your spouse gets the income from the trust you have set up for him or her until he or she dies. After that, the assets of the trust pass to your heirs free of estate taxes. (In effect, the $600,000 you could have given your heirs free of estate taxes upon your death was withheld temporarily while its earnings went to your spouse until he or she died.) Of course, your spouse also gets to leave $600,000 to your heirs tax-free.

A bypass trust, like most trusts, is testamentary—that is, it takes effect upon the death of the person who establishes the trust.

The opposite of a testamentary trust is a living trust—one that takes effect while you are alive. Its assets aren't sheltered from estate taxes, but they don't go through the probate process. That can save your heirs both time and legal fees.

What Flavor Is Your Trust?

Read any book on estate planning, and you may conclude that trusts come in as many flavors as ice cream. In a sense, that's true: Their details are limited only by the creativity of your lawyers and accountants and by the guidelines of the law.

In addition to being either testamentary or living, trusts can also be divided into one of two other broad categories: revocable trusts and irrevocable trusts.

Revocable trusts, as the name implies, can be changed or terminated during your lifetime. Irrevocable trusts can't be changed or revoked. For that sacrifice, however, they reward you with the same benefit as a testamentary trust: Their assets are not considered part of your estate for tax purposes.

Within these broad categories, there are dozens of ways to structure trusts. One of the most popular is the previously mentioned bypass trust, but other common forms include life-insurance trusts, charitable remainder annuity trusts (CRATs), and grantor-retained trusts.

Life-insurance trusts are appropriate for people with sizable life-insurance policies. By specifying that the policies be put into an irrevocable life-insurance trust, you remove proceeds of the policies from your taxable estate.

After your death, your spouse or other beneficiary can gain access to the in-

Federal Estate Taxes

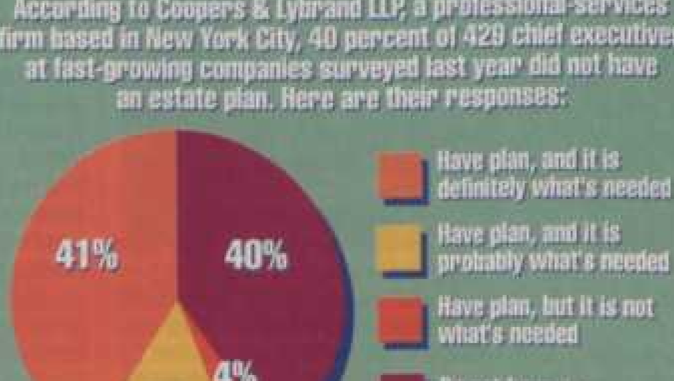
Estates valued at more than $600,000 are subject to federal estate taxes on a sliding scale. The $600,000 figure is calculated after deductions for charitable gifts, debts, funeral expenses, and executor's and attorneys' fees. The federal tax rate that applies to the amount in each bracket is as follows:

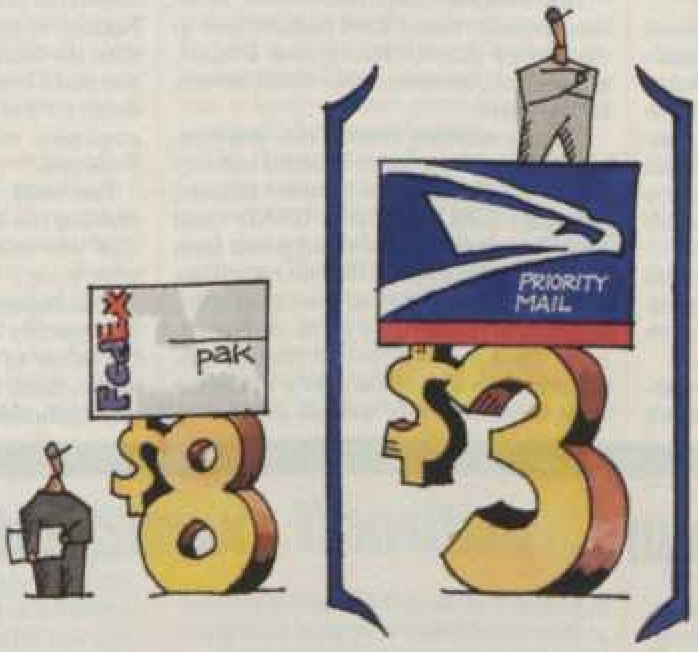
Portion Of Taxable Estate	Tax Rate
$ 600,000 - $ 750,000	37%
$ 750,000 - $1,000,000	39%
$1,000,000 - $1,250,000	41%
$1,250,000 - $1,500,000	43%
$1,500,000 - $2,000,000	45%
$2,000,000 - $2,500,000	49%
$2,500,000 - $3,000,000	53%
$3,000,000 And Above	55%

SOURCE: THE MONEY BOOK OF PERSONAL FINANCE

Poor Planning?

According to Coopers & Lybrand LLP, a professional-services firm based in New York City, 40 percent of 429 chief executives at fast-growing companies surveyed last year did not have an estate plan. Here are their responses:





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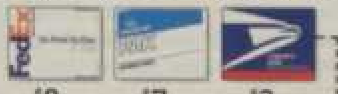

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come generated by the trust and, within certain guidelines, some of the principal. After the beneficiary's death, the assets pass to your heirs.

If you want to make sizable contributions to charity with your estate, an irrevocable CRAT may be in order. You get a tax deduction for some percentage of the assets you put into it, but you also get a fixed income stream from the trust of at least 5 percent throughout your lifetime (and, if you're married, your spouse's lifetime), after which the assets pass outright to the charity.

Many people like to fund a CRAT with an appreciated asset because doing so allows you to escape any capital-gains tax on the sale of that asset.

Variations on the CRAT include the charitable remainder unitrust (CRUT), in which your income stream fluctuates as a percentage (not less than 5 percent) of the changing value of the trust, as determined yearly.

The charitable lead trust, another variation, provides that a fixed annuity goes to the named charity during your lifetime, after which ownership of the assets reverts to your heirs.

Grantor-retained trusts, also irrevocable, include the grantor-retained annuity trust (GRAT) and the grantor-retained unitrust (GRUT). With GRATs and GRUTs, you receive fixed payments from the trustee for a specified time regardless of how much income the trust generates. Again, the assets then go to the beneficiary. The big benefit is that any appreciation in the value of the assets left in the trust is free of estate and gift taxes.

Passing The Company Torch

For many owners of small businesses, developing a business-succession plan is as important as minimizing estate taxes. Nothing is more heartbreaking, it seems, than the thought that the company you've sweated blood to build won't survive your death for the benefit of your family or the employees who depend upon it for their livelihood.

The most prevalent solution to that problem is a buy/sell agreement that specifies who will buy the company and at what price.

If financing is a roadblock, the company will typically buy a life-insurance policy on the owner to ensure that sufficient funds are on hand at his or her death to settle any applicable estate taxes and allow the

Ensuring The Future

Larry Davis was attending insurance-industry trade meetings when he started thinking about what would happen to his insurance agency when he wasn't around to run it anymore.

"When you realize that all the other underwriters in the room are younger than you are, you know it's time to start planning," says Davis.

Davis, 46, has many years in the insurance business. He started his Dallas agency, Davis-Posten & Associates Inc., soon after high school at age 19. He recruited his mother, who had been an office manager at another insurance agency, and his father, a firefighter, as partners.

Today, his agency produces gross annual commissions of about \$1.3 million. He employs six salespeople (called producers) and six office workers, including his wife, Billie Sue.

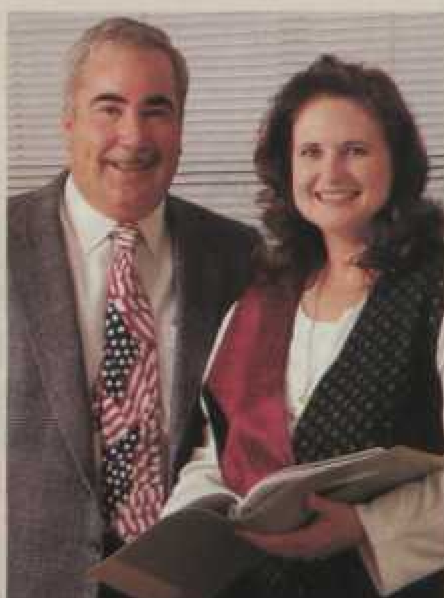
The insurance business has been good to Davis, and he has thought about selling his agency at some point. But he believes he has a better chance of holding on to his key employees now if he gives them a shot at owning part of the agency.

"I'd rather see my employees taken care of and my younger producers have an opportunity to fully express their entrepreneurial spirit in the same way that I was given a chance to do," Davis says.

So, instead of looking for an outside buyer, a few years ago he allowed his longtime office manager to buy the 10 percent of the agency that had been owned by his parents.

He also entered into agreements with his producers that allow each of them to buy up to 9 percent of the agency's stock at discounted prices once they meet certain sales thresholds.

Finally, he established a conventional buy/sell agreement covering all shareholders that fixes the price of the agency



As part *of his business-succession plan, insurance-agency owner Larry Davis sold a share of the agency to office manager Cheryl Morris.*

at \$1.3 million. Under that agreement, any shareholder who wishes to sell his or her stake must offer it first to the other shareholders.

For all his planning, which he did with the help of an accountant, an attorney, and an insurance agent who specializes in estate planning, Davis realized that his efforts could go for naught if he were to die tomorrow. He knew that none of his employees would have the wherewithal to buy his current 90 percent stake outright. So he had the agency take out a life-insurance policy on him, with its proceeds to be used to buy the business from his wife upon his death. His wife is not licensed to own an insurance agency and doesn't wish to run the business.

Davis has also provided for the disposition of his other assets upon his death, through a will that puts much of his estate into trusts for his grandchildren—the one he has now and any others who might be born.

His two children will inherit some money, but they won't receive as much as they might have under a different estate-planning strategy.

"My philosophy is that you can give somebody a little help, but they need to make it on their own and contribute to society in a positive manner," says Davis, who has earmarked some of his estate for a variety of charities, including the church that he and his wife attend.

Davis says that planning for business succession and minimizing estate taxes is a challenge, but one that shouldn't be avoided.

"I'm sure I've got some holes in my plan," he says. "But I've tried to do what I can to perpetuate the business by putting the plan together."

purchaser (be it a spouse, child, employee, partner, or even an outsider) to complete the transaction.

Note that if you have several children but are going to give your business to only one of them, you'll want to think about how you can make the disposition of your total assets equal—or at least fair—for all your children.

If you have substantial nonbusiness assets, it may be simple: Just give those to the other siblings. But what if your business represents the bulk of your estate?

Possible solutions, says Evelyn Capassakis, national director of estate- and gift-tax planning for Coopers & Lybrand, a professional-services firm in New York City, include providing cash for the nonparticipating family members through life-insurance proceeds, or recapitalizing the company to give them preferred or nonvoting stock in the company.

An increasingly popular technique for transferring ownership of a business and keeping it in the family—while also minimizing estate taxes—is to put the business into a family limited partnership. Here's how such a partnership works:

The parents form the partnership and put the business into it. They retain a 1 percent ownership share in the partnership and establish themselves as general partners. The latter move allows them to retain control over how the business is run and how the partnership's assets and earnings are distributed.

Initially, they hold the other 99 percent ownership in the partnership in the form of limited-partnership interests.

Over time, the parents distribute the limited-partnership interests to their children, either in small pieces, using the annual $10,000 gift-tax exclusion, or in big chunks, using their lifetime $600,000 exemption. (Yes, you can give away $600,000 of your estate tax-free before your death, if you wish. But then you don't get the $600,000 exclusion at your death.)

The beauty of a family limited partnership is that limited-partnership interests aren't worth their proportionate share of the partnership's total value because they provide no control over the business and aren't readily marketable.

Thus, a 10 percent limited-partnership stake in a $10 million business might be valued, for tax purposes, at $600,000, not

The Seeds Of A Smooth Transition

A month before Christmas, the garden center at Shiloh Nurseries Inc. in Emigsville, Pa., looks like a scene from a Norman Rockwell painting, with decorations and holiday greens at every door and window. Along the path leading to the side entrance, flowering cabbages are in full bloom.

Inside, Michael Stebbins, 47, is busy getting ready for a Christmas selling season that will be short because of the late arrival of Thanksgiving. After 27 years as co-owner of the nursery and landscaping business with his partner, Carl Jacobs, Stebbins knows exactly how he wants everything to look.

He also knows exactly what he wants to happen to the company when he and Jacobs retire. Both want Shiloh Nurseries to remain a thriving business.

That almost didn't happen for the family that owned the company before them. When its founder died with no estate plan, his wife and son discovered they were unable to work together. The son left to form his own nursery business, taking many of Shiloh's employees with him, and his mother was forced to sell the firm, which was tallying a modest $55,000 in annual sales.

Today, Stebbins and Jacobs employ 25 full-time workers and about 40 more seasonal employees, and they expect to post sales of about $3 million this year.

The two owners have six children between them but none who wants to take over the business—they've had their fill of nursery life during high school and summers home from college.

Nonetheless, Stebbins and Jacobs do have two longtime, highly valued employees—their top salesman and landscape architect, and their landscape supervisor—who would like to run a nursery and

An estate-planning firm *helped nursery co-owner Michael Stebbins ensure that his business will continue to flourish.*

landscaping business someday.

Stebbins and Jacobs liked the idea of them running Shiloh, so they set up a buy/sell agreement with the pair under which the two employees will begin to buy the company over two consecutive five-year periods. Each employee will purchase 12 percent of the company's stock during the first five years and another 12 percent during the second, at a fixed price of two times book value (with book value being recalculated annually). Payments will be made on an installment plan bearing interest at the prime rate plus 1.5 percent.

After 10 years, the four principals will decide how to proceed. Jacobs, now 53, is likely to retire then, but Stebbins hasn't decided what he will do. Possible options include having the two employees purchase the remaining 52 percent of the company at that time or allowing a small number of other key employees to purchase some of that stock.

Either way, Stebbins and Jacobs are glad that the salesman and the landscape supervisor are becoming part owners, because they will be positioned to take over the business when necessary. Shiloh has taken out life-insurance policies on each of the four shareholding partners; the insurance is in amounts sufficient to ensure that if any of the partners dies before the buy/sell agreement is completed, the other partners will be able to meet their obligations under the agreement.

To come up with their plan, Stebbins and Jacobs drew on the advice of an estate-planning firm, Estate Archetypes Inc., in nearby York, Pa., and on Gordon Porter, a CPA and small-business consultant in Dover, Pa., before approaching their lawyer to draft the necessary documents.

"One of the reasons I'm inclined to be so sure we're doing things right is because I'm proud of the fact that we took a small business and grew it successfully," Stebbins says. "This is the company's 60th-anniversary year, and I'd like to see it be here for another 60 years."

$1 million. That means Mom and Dad could give a $600,000 limited-partnership interest to a child, keeping it under the lifetime tax-exclusion limit, but reduce the value of their estate by $1 million.

Reaping The Benefits

Effective estate planning can make a dramatic difference in how much of your estate passes to your heirs. Richard White Jr., head of the trusts-and-investments department at Cole Taylor Bank in Chicago, cites two cases in which people had amassed nearly identical fortunes of about $5 million but wound up with far different tax liabilities.

The first involved a Louisiana business owner who wrote his own will without consulting an attorney or a tax professional and did such a poor job that his estate taxes exceeded $2 million.

The second case involved a lawyer who was aggressive in giving away part of his estate during his lifetime and also created various trusts for other assets in his portfolio. His estate-tax bite came in at a barely noticeable $15,000.

With numbers like that at stake, planning for the disposition of your estate is more than an option for most people; it's a responsibility. And if keeping a family-owned business is one of your objectives, it's probably a necessity.

Nonetheless, many business owners apparently haven't begun to plan. In a recent survey commissioned by John Hancock Financial Services, an affiliate of John Hancock Mutual Life Insurance Co., more than half of all small-business owners had not drafted formal plans for business succession. And in another survey, by Coopers & Lybrand, nearly half of the CEOs of the nation's fastest-growing companies said they did not have up-to-date estate plans.

Experts cite a variety of reasons for such results. Some people simply can't stomach the thought of confronting their mortality. Others are engaged in a misguided attempt to avoid tough decisions, such as determining which child should take over the family business. And some people just aren't comfortable discussing their finances with anybody, including their children.

"An awful lot of emotional and psychological issues enter the picture," says Bruce Wexler, a trusts-and-estates attorney with the Loeb & Loeb law firm in New York City.

Still, estate specialists agree that there's no good excuse for failing to plan. "Most business men and women understand what it means to put off the decisions," says Stephen Blakesley, president of Flagship Group Inc., a financial-planning concern in Houston. "It often means that the family business is lost. Why not address the issue now? After all, who knows better [than the current owner] who is talented and skilled enough to continue the family business so that the family can continue to feed from it for years into the future?

"If you leave the management process up to chance or attorneys, the likelihood of your company surviving is very slim."

Cost shouldn't be a concern. Whatever you spend on attorneys, accountants, other estate-planning professionals, or insurance policies is almost certain to be far less than would be spent on unnecessary estate taxes.

Blakesley estimates that most business owners could draft a will, create a few simple trusts for their spouse and children, and craft a straightforward succession plan for about $5,000.

If you don't own a business and the worth of your estate is under the $600,000 threshold, you may be able to have the necessary documents drawn up for a few hundred dollars.

If you're convinced that it's time to do estate planning, get going now. Too many estate-planning professionals can recall former clients who died with their estate plans on their desks—unimplemented.

Before meeting with an adviser, take some time to itemize your assets and liabilities and calculate your net worth before you meet with your adviser. Once you know what you have, it's easier to decide what to do with it—and probably cheaper, too.

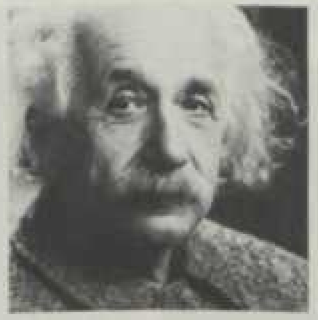
"The more advance preparation you do, the better off you are," says Coopers & Lybrand's Capassakis. "If your lawyer is helping you figure out what your assets are, how they're owned [jointly or individually], and is going through boxes of records with you, it's going to be much more expensive. It's like taking your shoe box [filled with receipts and check stubs] to your accountant."

In the end, all of your work will be worthwhile—and greatly appreciated by your heirs.

"Unfortunately, it often takes a tragedy for business owners to focus on key needs such as succession planning," says Jim McNeice, general director for business-market development at John Hancock Mutual Life Insurance. "Having a business-succession plan in place protects the owner's business and his or her family in the event of a tragedy." NB

To order a reprint of this story, see Page 55.

"The hardest thing in the world to understand is the income tax."



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ENTERPRISE

Taking Risks, Reaping Rewards

For business people like this year's national Blue Chip Enterprise honorees, a major obstacle is simply the prelude to success.

By Michael Barrier

Blue Chip Enterprises respond vigorously to overwhelming adversity and apparently hopeless odds. But they also see challenges where other business owners might not. What might look like a safe, comfortable existence can be—to a Blue Chip Enterprise—an opportunity to build something not only bigger but also more exciting and creative.

That appetite for challenges distinguishes all 170 companies chosen earlier this year as Blue Chip Enterprises in the annual program co-sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the half-hour morning TV news program presented jointly by MassMutual and the U.S. Chamber.

(For a complete list of companies honored nationwide, see the March issue of *Nation's Business*.)

The four companies designated as this year's national Blue Chip Enterprises best exemplify the spirit the competition seeks to honor, the program's judges believe. The national honorees received their awards in February at the annual meeting of the U.S. Chamber, in Washington, D.C. Those companies are:

- Bronner's CHRISTmas Wonderland of Frankenmuth, Mich.
- Accutec of Wallington, N.J.
- Computer Rescue Squad of Cape Coral, Fla.
- Howard Fabrication of Industry, Calif.

Here are their stories:

Wally and Irene Bronner *celebrate Christmas 361 days a year at their five-acre store in Frankenmuth, Mich.*

Bronner's

When you see Wallace J. Bronner talking to a group of fourth-graders, your first thought may be, "If this man grew a white beard, he could make a perfect Santa Claus." It's a natural enough thought. Bronner, who turned 70 in March, has the white hair and the grandfatherly manner—and, on some occasions at least, the red jacket—that suggest the likeness to Saint Nick.

The connection is, however, much stronger than that. When Bronner talks to groups of kids, it's at his store—Bronner's CHRISTmas Wonderland, in Frankenmuth, Mich. The company bills itself as the world's largest Christmas store, and no one is likely to contest that title, at least until they come up with a store that covers more than the five acres Bronner's occupies.

Bronner's employs about 225 people year-round, a total that rises to more than 400 in the months just before Christmas.

To appreciate the entirety of the place, Bronner suggests, requires three trips through it—once around the edges (there are no aisles, only islands), once for the middle, and once for looking up at the large displays above the sales floor.

The store creates a feeling a little like a theme park, and there's no doubting that some people think of it that way. "We have a greeter who counts the people who come in the store, and we know how many sales are rung through the register, so we can do a people-to-customers ratio," says Maria Sutorik, one of the three Bronner children who work with their spouses at the store. Sometimes, says Sutorik, the marketing manager, the ratio is as high as 7-to-1.

The idea at Bronner's, however, is not to entertain visitors but to send them out the door with packages in hand. As Wally Bronner says, "Everything's for sale." Those oversized carolers and reindeer and Santa Clauses above the sales floor, for example, are not there just to enhance the retail atmosphere—commercial customers buy them, for displays at shopping malls.

Of the 10,000 different ornaments for sale in the store, about half are Bronner's designs. The business also supplies customized ornaments—bearing a company's logo, for example. "We are designers, producers, importers, exporters, and distributors," Bronner says. "We sell a lot of reindeer to Japan."

When Bronner went into business for himself 52 years ago, he didn't set out to become the owner of the world's biggest Christmas store. He speaks of opportunities that he just "fell into."

But his company's uninterrupted success—its growth is a "boring graph," he says—suggests another pattern: As opportunities arose, he seized them, even

though they eventually led him straight out of the business he started in.

He began by painting signs on Masonite, some of them Christmas decorations for the streets of towns near Frankenmuth. The web of connections in small towns is such, Bronner says, that his decorations for public displays led quickly to sales for commercial use.

It was in the '50s that Bronner began selling decorations for homes, after some of those commercial customers told him, "My wife says I can't come here anymore unless I bring something for the home."

Within a few years, he had three Christmas stores clustered in downtown Frankenmuth, a German-flavored town of about 4,500. As his business grew, Bronner showed an unceasing alertness to his customers. For instance, he got into selling artificial trees—he now sells "many, many of them," he says—when a customer asked to buy a tree he was using to display ornaments; the customer's child was allergic to real trees.

Twenty years ago, Bronner made his biggest and riskiest move: to a 45-acre site on Frankenmuth's southern edge. Bronner describes his wife, Irene, as "really the motivator who said, 'Get that bigger building built.'" They doubled the store's size in 1991. About 85 percent of total revenues at Bronner's CHRISTmas Wonderland come from retail sales.

Even though Wally Bronner never set out to own a Christmas store, Bronner's CHRISTmas Wonderland has turned out to be a good fit for a family of devout Lutherans. The store unashamedly celebrates Christmas—Bronner likes to see it written "CHRISTmas"—as a religious event as well as a secular holiday.

"We really do enjoy Christmas," says Wayne Bronner, Wally's son and his right-hand man as the store's assistant general manager. "We don't just do it because it's a moneymaker. Obviously, there's profit in it, or we wouldn't continue in business, but we truly enjoy what we do."

Accutec

The odds are that you've never heard of Accutec, a specialty advertising company in Wallington, N.J. But the odds are pretty good, too, that you've used one of its products. The next time you're holding a ballpoint pen imprinted with a company's name, check the clip; if it says "Finesse," you're writing with an Accutec instrument.

The company has been producing promotional pens and flashlights since 1965, products whose quality is so high that hundreds of large corporations use them to represent themselves to customers. Accutec doesn't sell directly even to the largest companies; it works instead through 15,000 distributors, many of them very small, local businesses. It assembles pens and flashlights at its Wallington plant from components produced in the United States and abroad.

Ten years ago, Arnold "Jerry" Hendelman and Harold L. Goldin had just taken control of the company; both had been part owners for years, and when the CEO decided to call it quits, they bought him out. "There were certain small indications" that all was not right with the company, Goldin says, "but we just didn't put it all together."

Hal Goldin, left, and Jerry Hendelman *saved their Wallington, N.J., promotional-products firm from possible death.*

The first clear signal that something was disastrously wrong came at a trade show in Dallas, when they discovered that their corporate credit cards had been canceled.

Soon after they returned, a lot of the company's records were lost—many in "a mysterious fire," as Hendelman calls it, and others when an employee with financial responsibilities left the firm. "We had no accounts payable, no receivables, no checkbooks."

Hendelman and Goldin discovered that about two-thirds of the company's inventory was worthless. "If you discontinue an item," Hendelman says, "but you keep counting it, eventually it's really going to bite you."

To make a terrible situation even worse, the Internal Revenue Service descended on Accutec and closed it; the former employee, it turned out, had not filed tax returns for the company for three years.

Ultimately, Accutec was paying New Jersey $5,000 a week, the federal government $10,000 a week, and the bank $50,000 a month against a $1 million debt. After the payment schedule with the state had been worked out, Hendelman said to Goldin, "Well, I think we know everything."

Then the telephone rang, with a demand for payment of $130,000 for plastic garbage bags—ordered by the former employee, on the company's account, presumably for some personal project. "One shipment came here by mistake," Hendelman says. "We had a 40-foot trailer load."

An underlying problem in the company's financial management, says Mark I. Gittelman, now the company's accountant, was a lack of internal controls, which resulted in the company being defrauded of around $3 million over about three years. The problem finally surfaced when the IRS placed a lien on the company's bank account.

Once the bank and tax authorities had granted a stay of execution, Accutec went to its suppliers. "We told all our suppliers exactly where we were," Hendelman says. "All but one not only said they would go with us, but three said they would help us with payroll."

Once its suppliers had pledged their cooperation, the company was out of immediate danger because, as Gittelman says, "there was nobody who could really close the business down." Sales were good; enough cash was flowing through the company to permit the owners to save it if they could control costs.

"By paying the debt off and reducing our interest costs, by going to American suppliers, and by carefully monitoring everything that went through this firm, we were able to bring our gross profit margins up," Gittelman says. It turned out, for instance, that one supplier, taking advantage of the lack of controls, had been double-billing the company.

Over five years, Accutec paid off debts totaling $4.5 million. Now the company is debt-free and is generating consistent after-tax profits of 5 percent of revenues. For Hendelman and Goldin, both in their late 60s, there is a side to Accutec's story

that is perhaps even more gratifying than its financial success. "You know what's nice?" Hendelman says. "It's fun again."

Computer Rescue Squad

When Carol P. Conway bought a struggling little Cape Coral, Fla., company in June 1993, she thought that with her background in technology she could turn it around quickly. "My arrogance and naiveté were pretty staggering," she says.

Conway, who was 36 then, was a veteran marketer. She began by selling IBM typewriters and dictation machines to small businesses after graduating from the University of New Mexico; she moved up the corporate ladder after that, first with IBM and then with Herman Miller, Inc., a major office-furniture manufacturer.

By the early '90s, she and her husband, Kevin F. Conway, were forging careers in California's Silicon Valley—but they decided that it was time to realize their ambition of owning their own businesses. "What's natural for me is entrepreneurial," she says. "Taking responsibility and control and risk." They settled on Florida and then the Fort Myers area, where they moved in April 1993.

Two months later, she paid $125,000 for Computer Rescue Squad (CRS), a tiny company with two technicians who repaired and modified personal computers—installing hard drives, adding memory, and so on. "Every account they had was small," she says. "It wasn't a very sophisticated company from a technological standpoint."

She had realized, as she surveyed the market, that no one was specializing in local area networks (LANs), which had already arrived in the larger cities where she had lived but were still the coming thing in the Fort Myers area.

"This market was almost there," she says, "but nobody was doing it, because all the local competitors were still making a ton of money selling hardware."

But because PCs were becoming a commodity, with concomitant price pressures, she believed that her critical marketing edge would lie in what was in her employees' heads.

"I started looking under stones for people," she says, and to attract them, she paid more. Besides recruiting "the best people I could find," she started "pushing them through classes"—which she paid for, as much as $1,500 for a weeklong session, so that her technicians could be certified by Novell, Inc., and Microsoft Corp. as qualified to work on their network products.

As for herself, she went after accounts that she knew would give her credibility, starting with the only daily newspaper in the county. It hired CRS for "basic PC service and repair," she says, and then began turning to it for more high-end work.

She probably lost money at the newspaper for six months, she says, "because they really tested me." The same was true with Fort Myers' city government, which "gave us our first great big service contract."

"They weren't trying to take advantage of me," she says of those two big customers. "We were just learning"—and she made a point of swallowing the cost of her own mistakes (setting too low a price, in particular) rather than asking the customer to pay.

PHOTO: [illegible]

Carol P. Conway *bet everything on the success of her Cape Coral, Fla., computer-service company—and won.*

As a result, she says, "those people became huge advocates for us." Competitors would nickel-and-dime their customers, she says, and because she didn't, "I gained this reputation for being fair and ethical. That means a lot, wherever you go."

Conway was in a race against time, however. The idea had been that Kevin would locate a job while Carol went into business, but he couldn't find a position that drew on his technology background; he eventually became a self-employed business broker.

CRS was "generating market presence," she says, "and we were getting clients"—but profits were slow in coming. She lost money her first six months in business, and then she lost "a lot of money" in 1994.

The Conways were highly liquid after selling their house in California, but, she says, "you go through it so fast." They had bought their new house free and clear, but within a year they had mortgaged it for $160,000. That money disappeared with dismaying speed, so they liquidated savings for perhaps another $30,000.

A second mortgage came next, and then they sold both their cars and started leasing to free up cash. They tapped their credit cards to the limit. As a last resort, she borrowed $20,000 from her father.

At that point, though, late in 1994, profit was finally "starting to trickle in," she says. Then the trickle turned into a gusher.

Computer Rescue Squad is now a 17-employee company with 10 technicians in the field and $2 million in annual revenues.

But Conway is "totally unhappy now, because we're not wide-area-network specialists, too"—dealing with networks that embrace more than one location. "So we're driving to the next level, to a heavier focus on intranet and Internet connectivity, through wide-area networks."

Even when an entrepreneur achieves success, "you still wake up at 2 in the morning with that churning in your stomach," she says. "But it's about retention of employees, and litigation, and employee handbooks." It is, in short, about protecting the business—not about whether it will survive. As Carol Conway knows, there's quite a difference.

Howard Fabrication

It was, John Gill recalls, the first time he was ever fired from a job—not a particularly pleasant experience, especially since he had scarlet fever at the time.

That was in December 1993. Gill had been hired in 1989 as the plant manager for C.E. Howard Corp., a venerable metal-fabrication company that made stainless-steel tanks and vessels for demanding industrial applications. Gill had been in business for himself, performing "field installations of vessels and piping systems and things like that"—products of the kind that the Howard company was making.

C.E. Howard had been owned for a few years by a large corporation that was mainly in the restaurant business—and it was ready to close the company in the

face of mounting losses. The problem was, Gill explains, that the new owners had moved into unfamiliar water-treatment technology. He acted to control costs and led C.E. Howard back toward its core business.

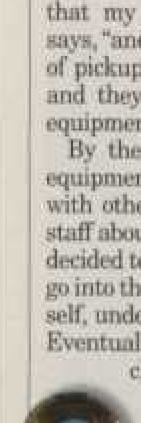
Even though C.E. Howard was once again profitable, the company's owner was still of a mind to shed an acquisition that no longer fit the parent's strategy. But California was in the depths of recession in 1993, and, Gill notes, "manufacturing was looked down on." The market for the company, as a going concern, was bleak.

In 1993, C.E. Howard's owner sold its assets—but not its liabilities—to a manufacturing company on the East Coast, leaving behind a shell that soon went bankrupt. "There were a lot of mad vendors," Gill says. The 30 employees, some of whom had been with the company for decades, were dismissed.

Gill was ill at home when the company that had bought C.E. Howard's assets began removing all that equipment from the plant. But Gill's own equipment—a half-dozen large pieces, including welding machines and air compressors, that he had used in his business—was there, too.

"Some of the former employees knew that my equipment was in there," Gill says, "and they knew that I was ill. A group of pickup trucks showed up at the plant, and they had to physically wrestle that equipment away from the movers."

By the time Gill went to pick up his equipment from its rescuers, he had talked with other fired members of the Howard staff about what they were going to do. He decided to raise all the money he could and go into the metal-fabrication business himself, under the name Howard Fabrication. Eventually, what he calls his "gigantic war chest" amounted to $40,000.



Working with a minimum of equipment, Gill and his five new employees—all, like himself, veterans of C.E. Howard—had to rely mainly on their skills and especially on their pride. "We had something to prove," Gill says.

Fortunately, he was in an industry where skill counts for a lot, despite the need for expensive equipment and materials; Gill estimates that labor accounts for 60 percent of the cost of his products.

"At first," says Ron Reed, Howard Fabrication's general manager, when he looked for customers "there were people who wouldn't talk with us." But some old customers "never batted an eye," Gill says, even though they were aware that his finances were precarious.

Suppliers who felt they had been stung by the old company wanted payment c.o.d. As revenues grew and Gill went out to lease equipment to add to the few pieces he had, he found that no one would lease to him. "You're a tank manufacturer, on the West Coast," he remembers the equipment owners saying. "You'll never make it." He finally found someone who worked out a lease-purchase deal with him—at a high cost.

John Gill, *right—with general manager Ron Reed—found capital in short supply but built his Industry, Calif., company on a reputation for quality.*

One by one, though, the pieces fell into place. Gill figured that Howard Fabrication needed to take in $500,000 in its first year to keep its doors open; in fact, its revenues reached $1.5 million. The company's revenues in 1996 were $4.7 million—three times as large, Gill says, as C.E. Howard's revenues ever were. Howard Fabrication now has 50 employees.

"In the beginning," Gill says, "I thought that reining in growth was an important thing to do. But what I have working here is a group of racehorses. And once you let a racehorse start to run, I don't think it's right to pull back the reins. So we're moving into new markets."

Howard Fabrication makes pressure vessels and vacuum chambers for a variety of industries—food processing, brewing, pharmaceuticals, aerospace. Its products, some of them as large as 20 feet in diameter, are essentially custom-made.

Whereas Howard Fabrication, like C.E. Howard before it, at first built only the chambers and vessels themselves, Gill is starting to provide everything else—controls, electronics, computer software—that lets a chamber or vessel do its job, in a turnkey package. The dollars involved are proportionately larger.

As he has built his own business, Gill has carried with him the searing lessons of the C.E. Howard debacle. Everything surrounding the closing of the plant was done in a "businesslike" manner, he recalls, not using the term in a positive way.

He continues: "Businesses are people. It's important for business owners to concentrate every day on understanding the people who work for them, and how to provide for them. If you allow people to be creative and you allow them to reach their potential, it comes back to you tenfold."

Time To Apply

Applications for the Blue Chip Enterprise Initiative can be obtained by calling the program's toll-free number, 1-800-FOR BCEI (1-800-367-2234), by contacting a MassMutual agent, or by sending an e-mail request to *bluechip@nationsbusiness.org*. The application will also appear in the July issue of *Nation's Business*.

You can find out more about the Blue Chip program at *www.nationsbusiness.org/bluechip.html* on the Internet. NB

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LEGISLATION

Checks, Balances, And The CPI

A downward revision in the Consumer Price Index could affect retirement payments, taxes, and the federal budget deficit.

By James Worsham

The Consumer Price Index, perhaps the best-known government statistic, probably impacts small businesses more than any other number that economists crunch. It affects wages and salaries, rents and leases, tax brackets and exemptions, and, of course, interest rates.

Considered the nation's broadest measure of inflation, the index also has a major effect on Social Security and other government retirement programs, the poverty line, and even other federal statistics that are calculated using some or all of the CPI's components.

Now this important index seems headed for an adjustment—either in how it's calculated or in how it's used.

Influential critics, including Federal Reserve Board Chairman Alan Greenspan, say the CPI has overstated inflation for decades by 1 to 2 percentage points a year. As a result, they say, reports of U.S. economic growth have understated the actual expansion rates, and federal payments to retirees have been larger than were needed to keep pace with inflation.

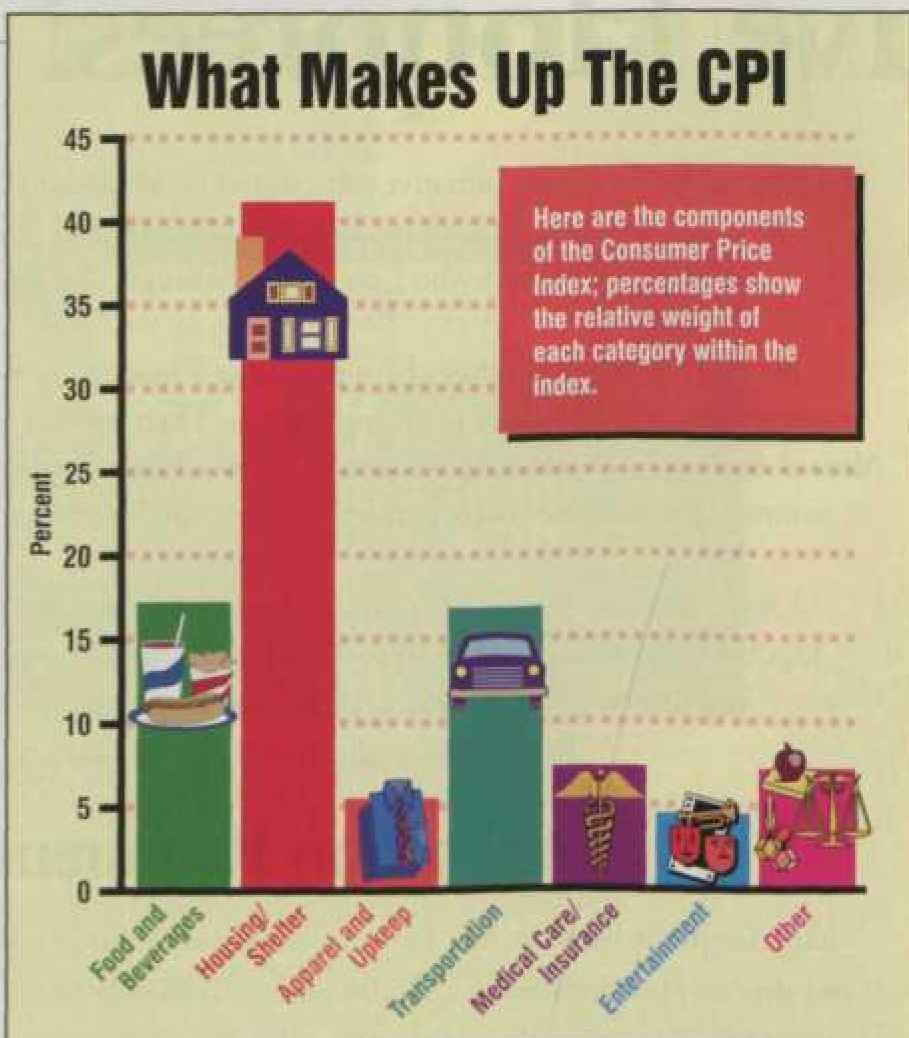
In a report late last year, a panel of five economists appointed by the Senate Finance Committee claimed a 1.1-percentage-point overstatement, adding that "it is likely that a large bias also occurred looking back over at least the last couple of decades."

"This overstatement will have important unintended consequences, including overindexing [pushing up] government outlays and tax brackets and increasing the federal deficit and debt," the group stated.

The panel, led by Michael Boskin, a professor of economics at Stanford University, said that under the current method of calculating the CPI, new products, quality improvements to existing products, and consumer shifts to discount stores and cheaper goods are not taken into account quickly enough.

The U.S. Labor Department's Bureau of Labor Statistics (BLS), the agency that calculates the widely used statistic, emphasizes that the CPI is not a "cost-of-living index" but a "price index" that measures a fixed market basket of goods and services.

The BLS says it is always seeking ways to improve the CPI, and next January it will re-weight the various categories within the index to reflect updated consumer spending patterns. But officials acknowledge that the BLS can't fix most of the problems cited with the CPI as it's currently structured.



SOURCE: U.S. BUREAU OF LABOR STATISTICS

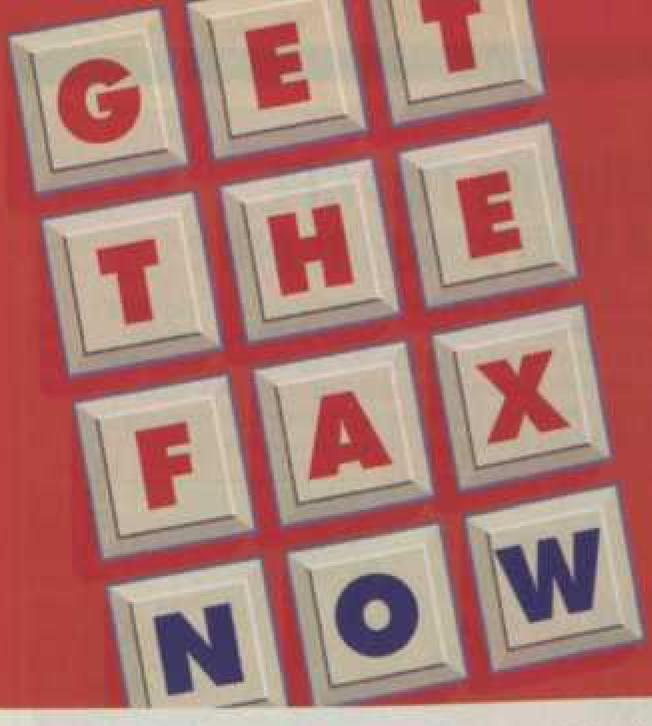
Impacting The Budget

The CPI debate has interested congressional and administration budget writers because shaving 1.1 percentage points off the index would be a big step toward balancing the federal budget. The Congressional Budget Office has estimated that a 1.1-percentage-point reduction in the index would reduce total federal spending by $133.8 billion over five years, largely by lowering projected increases in entitlement payments.

Another effect of a downward revision of the CPI, according to the congressional Joint Economic Committee, would be tax increases for middle-income families. The revision would dampen the rise of federal income-tax brackets, standard deductions, and personal exemptions, meaning that growing incomes would fall into higher tax brackets sooner than they do now.

Nonetheless, proponents of adjusting the CPI say that increasing the accuracy of government statistics—even if doing so would have widespread and, for some, unwelcome effects—is a laudable goal.

Dean Baker, an economist with the Economic Policy Institute in Washington, D.C., says, however, that the Boskin commission was stacked with economists predisposed to finding fault with the CPI. He says that all five panel members had



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previously stated that they believed the index contained biases.

Baker says that "a thorough, impartial evaluation" of the index is likely to result in little overall change in the CPI, since there are likely to be biases in both directions. And he warned: "Correcting for [what is mistakenly seen as] a significant CPI overstatement of inflation will change nearly everything we thought about the economy."

A Long Reach

The CPI or its components are deeply embedded in business and government at all levels and in many statistics that guide public and private decision making.

The index is widely used in union and nonunion workplaces alike to set or guide wage increases. It's also commonly included in multiyear rental, lease, and purchase agreements to determine increases in amounts paid by businesses and individuals.

At the federal level alone, the CPI governs the size of benefit increases that go to recipients of Social Security and to military and civilian retirement programs, veterans benefits, and programs whose eligibility standards are tied to the poverty line. Many components of the index are factored into the U.S. Commerce Department's quarterly gross domestic product (GDP) figure, the broadest measure of the nation's output of goods and services and the figure most often cited as the level of economic growth.

As the debate over adjusting the CPI simmers, evidence is growing to support the theory that the index does indeed overstate inflation. The Boskin panel told the Senate Finance Committee that the current CPI overstates inflation by 0.8 to 1.6 percentage points each year. It offered 1.1 percentage points as its "best estimate" of the overstatement.

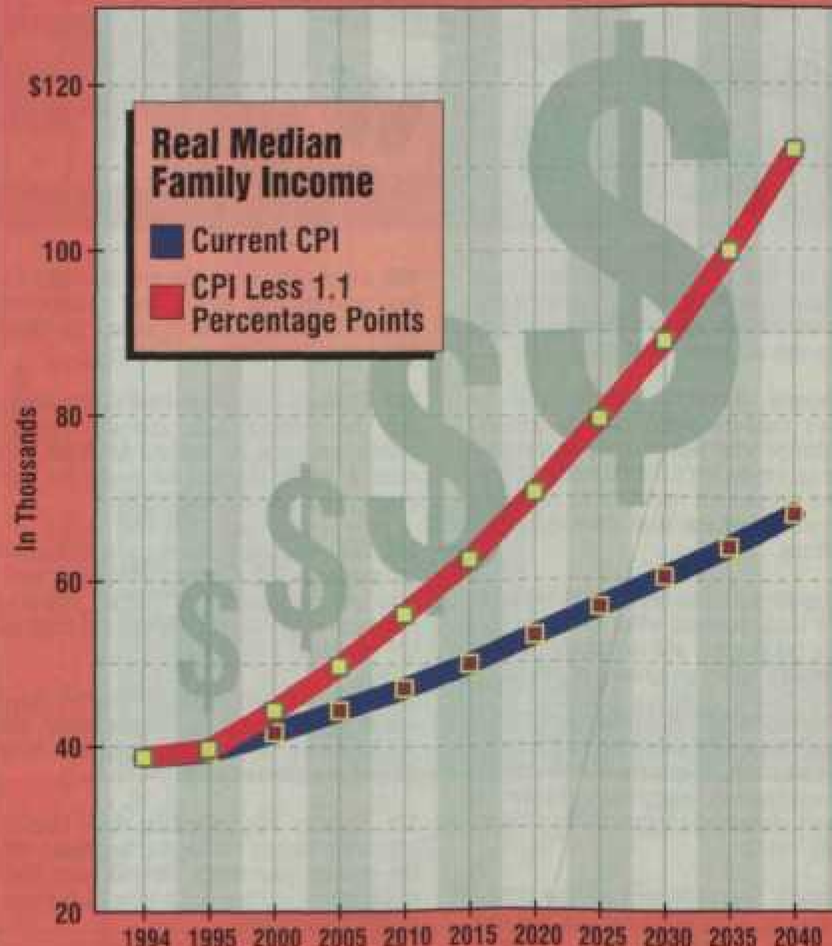
With the CPI now rising at about 3 percent a year, that means inflation is overstated by about one-half, in the Boskin panel's view.

The commission cited three areas of overstatement. Just over half of the 1.1-percentage-point overstatement—or six-tenths of a point—comes about, the panel said, because the BLS is too slow in including new products in its calculations and doesn't adequately take into account any improvements made in products since their introduction in the market.

An additional four-tenths of a point in overstatement, the panel said, arises because the BLS underestimates the degree to which consumers substitute lower-priced products and services when prices for other items rise too much. The remaining one-tenth of a point was attributed to the BLS's purportedly insufficient recognition of consumer buying shifts to discount stores.

Deflating The CPI Would Increase Income

The following projections of median family income reflect income growth that would be "real"—that is, beyond whatever would be necessary just to keep up with inflation—according to the Economic Policy Institute. The blue line is based on the Consumer Price Index as currently fashioned; the red line reflects a CPI reduced by 1.1 percentage points. Reducing the impact of inflation on income growth increases the real gain in median family income every year. All figures are 1994 dollars.



SOURCES: ECONOMIC POLICY INSTITUTE; DATA FROM U.S. BUREAU OF LABOR STATISTICS. WAGE PROJECTIONS FROM THE 1996 SOCIAL SECURITY TRUST FUND REPORT

Although the CPI is only a price index, it is widely used as a cost-of-living index to compare living costs between periods of time and among various regions and metropolitan areas of the country as well as to determine increases in Social Security and various federal retirement programs. The Boskin panel recommended that a separate "cost-of-living index" be developed for such purposes.

As part of updating the index, the BLS plans to introduce a revised system in which some items, such as food, might be weighted less heavily in the overall index and other items, such as housing, might be weighted more heavily. The revisions would reflect consumer buying patterns in the 1993-95 period rather than the currently used 1982-84 period, and they would capture many new products and services and could eventually eliminate some biases.

The revision is part of a BLS six-year plan of "methodological and technological improvements." But Patrick Jackman, a senior agency economist, says that the BLS will be able to respond to only part of the substitution problem cited by the Boskin panel and that it will be unable to deal with other "biases" cited by the group.

Jackman says that in a price index like the CPI, an agency cannot exercise judgments necessary for a cost-of-living

index. "You have to use standard statistical techniques," he says.

Moreover, BLS Commissioner Katherine Abraham told Congress recently that her agency is limited in its ability to refine the CPI, especially in measuring quality improvements in services and retailing and in determining the value of medical services. "There are things we don't know how to measure," she told the Joint Economic Committee. Abraham cautioned against congressional tampering with the CPI.

Among the important data that would be impacted by the ripple effect of changing the CPI is the gross domestic product. "To the extent we're overstating the CPI, we are understating the real growth in the economy," says Maurine Haver, president of Haver Analytics, an information-services and consulting firm in New York City, and chairwoman of the statistics committee of the National Association of Business Economists.

To calculate the GDP, economists subtract the inflation rate as reported by the CPI. Hence, subtracting a lower CPI would result in a higher inflation-adjusted growth rate. J. Steven Landefeld, director of the Commerce Department's Bureau of Economic Analysis, says his agency sometimes substitutes statistics from other sources if it has doubts about a particular component of the CPI.

> "To the extent we're overstating the CPI, we're understating the real growth in the economy."
>
> —Maurine Haver, President, Haver Analytics

Triggering Tax Increases?

Revising the CPI may appeal to budget writers, but it is a double-edged sword. The Joint Economic Committee reports that while 60 percent of the deficit reductions would come from a slower rate of growth for entitlements, the other 40 percent would come from the increased taxes resulting from a slowdown in the upward movement of tax brackets and deductions.

For example, a family with a taxable income of about $40,000 is in the 15 percent tax bracket now, but as its income increased—and the brackets, exemptions, and standard deductions didn't move upward at the same pace—some of the family's income might then be taxed at 28 percent.

The committee said in early March that a study showed that a reduction in the CPI of 1.1 percentage points would mean tax increases to middle-income families of about $400 a year and would raise a total of about $322 billion over the next dozen years.

Although the Boskin panel and other CPI critics are pushing for a cost-of-living index, advocating it might be easier than delivering it. Such an index, Baker says, would have to factor in such things as precautions taken against crime or the increased use of lawyers and stockbrokers to deal with the "growing complexity of life."

Meanwhile, the National Association of Business Economists reports that more than 70 percent of manufacturing, transportation, utility, and communications firms use the CPI in calculating wage increases. Almost two-thirds said a downward adjustment in the CPI would have little impact on their companies but that future pay increases would be smaller.

Although budget writers in Congress and at the White House acknowledge that a lower CPI could save hundreds of billions of dollars and make it easier to balance the budget, neither side wants to be the first to propose adjusting it. That's because the smaller increases in Social Security and other federal retirement checks and the tax increases for some middle-income Americans could raise some serious political problems with groups powerful at the polls.

As a result, there's skepticism and caution among Republicans and Democrats on Capitol Hill about the CPI and cost-of-living issue. But there will still be pressure in political and economic circles for quick action on the matter.

Senate Majority Leader Trent Lott, R-Miss., has proposed that a commission be named jointly by Congress and the president to recommend a cost-of-living formula adjustment for federal entitlement programs. Having a commission of experts decide the new basis for increases in retirement checks could protect lawmakers from the political heat of lobbyists for Social Security and other benefit recipients who might see lower increases in the future.

The White House gave its support to an independent commission in late February, then backed off in mid-March, leaving Lott's proposal with an uncertain future. Senate Minority Leader Thomas Daschle, D-S.D., and Greenspan had voiced support for it.

Majority Whip Don Nickles of Oklahoma, the No. 2 Republican in the Senate, says an adjustment should be made to increase statistical accuracy. "We ought to have an accurate CPI because we ought to have an accurate CPI."

So while inflation, as measured by the CPI, is expected to hold steady at about 3 percent this year, the index's future may not be so steady or so uneventful. NB

LEGISLATION

Postal Service Tackles Competition

Aggressive marketing, designed to boost revenues, is part of the agency's strategy to remain competitive.

By Steve Bates

ENTERPRISE 2000

Las Vegas businessman Bill Cooter had a steady stream of customers at his two Abell's Pack & Mail stores until early last year, when several nearby post offices started offering their customers many of the same services Cooter provides: packing items with bubble wrap, finding the right-size boxes, even photocopying and faxing customers' documents. The post offices put discount coupons in local newspapers and delivered ads to area homes promoting the services.

The initiative cut into Cooter's business, but it confused him as well. Why was a corporation owned by the federal government competing head-on with business people like himself, he wondered. "It's really unfair. I have no problem with the post office delivering mail and selling stamps, but boxing is my business," says Cooter. "I wonder what's next? Are they going to sell milk and eggs?"

Top postal officials view the pack-and-send operation differently. Cooter's shop and a variety of other businesses across the country, they say, have invaded the Postal Service's turf in recent years, staking out profitable niches—including overnight mail and package delivery. That drain on potential revenues makes it difficult for the Postal Service to finance its primary mission of delivering mail to every home and business in the country, officials say.

"We used to have it all," Postmaster General Marvin Runyon said in an interview with *Nation's Business*. Of his competitors, Runyon said that, inadvertently, "we put them in business," in part by not aggressively marketing Postal Service products and services in the past.

Today's fierce spirit of competition—for which the colorful Runyon offers no apologies—is fueling an attempt to regain territory, establish new services, and approach financial stability as the nature of communications changes rapidly.

Calls For Reform

Questions about the mission and methods of the Postal Service are at the heart of reform efforts in the mail industry and on Capitol Hill.

Reconfigured by Congress in 1970 as an unusual blend of government and private enterprise, the Postal Service benefits from legal monopolies on some mail services and from a government guarantee of its debt.

Yet it is hamstrung in some significant ways. The Postal Service must wait nearly a year for some proposed rate increases and service changes to wend their way through the regulatory process. Labor disputes must be settled through binding arbitration, which has been costly to the agency in recent years.

The mix of public- and private-sector powers bestowed by Congress has led to an identity crisis for the Postal Service, say some mail users. "On the one hand they want to be treated like a business, but on the other hand they don't want the [financial] accountability," says Guy Wendler, president of Stamats Communications, a publishing and marketing-communications firm in Cedar Rapids, Iowa.

Yet, some note, the Postal Service can't be blamed for many of its problems. In addition to dealing with regulatory red tape, the Postal Service is up against labor laws that limit its ability to restructure and downsize, says Donald Kummerfeld, president of the Magazine Publishers of America, in New York City. "We have to attack those barriers," says Kummerfeld.

Legislation that surfaced in Congress last year and was reintroduced this year by Rep. John McHugh, R-N.Y., would give the Postal Service more flexibility to change rates for stamps and services. Generally supported by the Postal Service, this ambitious measure is designed to let the agency respond quickly to the dynamics of the marketplace, much as private businesses can.

McHugh's bill, H.R. 22, would set up separate rate-making rules and procedures for services for which the Postal Service has a virtual monopoly, such as first-class letters, and for "competitive" products and services, such as parcels and express mail, that are also delivered by private firms.

Whatever changes, if any, do occur could

Strapped for business *while the U.S. Postal Service offered a packing service, Bill Cooter, of Abell's Pack & Mail in Las Vegas, and others fought back.*

This story is part of a continuing series on managing at the turn of the century.

have significant economic impact on the Postal Service's business and residential customers nationwide.

The Postal Service has had some head-turning successes recently, including solid growth in Priority Mail revenue, improvement in first-class delivery to many urban areas, and two straight years of billion-dollar-plus profits. But its executives acknowledge that it's in long-term trouble.

It is carrying billions of dollars in debt accumulated through many years of operating losses. Its costs—mostly in the form of wages and benefits for its unionized workers—are increasing faster than the inflation rate.

Moreover, the growth of first-class mail has been eroded steadily by faxes, electronic mail, and other cheaper, faster, and more convenient alternatives to letters. These challenges are driving the Postal Service to find revenue almost any way it can.

The "pack-and-send" service that competed with Cooter's shops in Las Vegas was being tested in only about 260 of the approximately 28,000 post offices nationwide. But it was viewed as a huge threat by Cooter and owners of similar shops, including franchise stores such as Mail Boxes Etc. and Parcel Plus. They decided to fight back.

In January 1996 they formed the Coalition Against Unfair USPS Competition. Four months later they filed a complaint with the U.S. Postal Rate Commission (PRC), an independent panel appointed by the president and authorized by Congress to rule on proposed changes in postal prices and services.

In December, the PRC said the Postal Service would need formal approval from the commission to continue or expand pack-and-send service. On Feb. 14, citing the PRC decision, the Postal Service pulled the plug, though it retains the right to apply for the service at any time.

Playing To Win

The agency has fared better in other recent skirmishes, including one with major parcel shipper Federal Express. Stung by a television advertising campaign in which the Postal Service touted its Priority Mail service as cheaper and better than the express delivery services of FedEx and United Parcel Service, FedEx countered with a radio ad campaign disputing the claim and filed a federal lawsuit, which was pending at press time.

The charge: The Postal Service ad campaign, which some industry executives estimate cost over $50 million, was misleading, if not inaccurate, because it compared costs without noting that Priority Mail averages delivery in two to three days but doesn't guarantee a delivery date or offer tracking, as FedEx and UPS do.

Meanwhile, the National Advertising Division of the Council of Better Business Bureaus, in New York City, entered the fray. It urged the Postal Service to tell viewers that it can't track—and doesn't guarantee delivery dates—for Priority Mail. However, the Postal Service appealed that opinion to the National Advertising Review Board, the division's appellate body, which found that the Postal Service did in fact have a reasonable basis for the ads.

In addition, the Postal Service has been able to outflank most companies that attempt to establish nationwide door-to-door delivery systems as alternatives to the Postal Service.

On July 1, the Postal Service implemented a reclassification of some rates and rules designed to make better use of Postal Service equipment that processes bar-coded mail efficiently. The changes were costly for many small businesses that do not have the mail volume or the equipment needed to take full advantage of reduced rates. (See "Reclassification: Winning The Numbers Game," Page 40.)

New Rate Structure

Under the McHugh bill, rate increases for first-class and other mail could occur more frequently than they do now. However, they would likely be smaller and more predictable, which would please many businesses and their mailing firms. "The customer can anticipate the changes," says Joe Schick, postal-affairs manager for Quad/Graphics, a large printing and mailing firm in Pewaukee, Wis.

The rate commission would establish baseline charges for monopoly mail services. The Postal Service could adjust those rates annually without PRC approval, subject to an inflation-related index that would be adjusted periodically. The Postal Service could negotiate volume discounts with mailers for certain categories of mail. And it could alter rates for competitive mail services without PRC review.

Though no one is predicting quick passage for the McHugh measure, it has drawn praise. "On the whole, it's a commendable effort to bring about a more businesslike Postal Service," says Bob Reinhart, a manager at Rodale Press in Emmaus, Pa.

But some industry spokesmen say the Postal Service needs even more fundamental reforms. "Unlike other competitive businesses, the Postal Service is not driven by the imperatives of reducing costs and maximizing gains," says Gene A. Del Polito, president of the Advertising Mail Marketing Association, based in

LEGISLATION

Reclassification: Winning The Numbers Game

A year ago, when Shreveport, La., furniture-company executive Al Sepulvado heard that the U.S. Postal Service was about to implement a complicated set of changes in its rates for many business mailers, he sat down with his mail-service provider to assess the damage. Michael Riordan, who runs National Mail-It Inc., a medium-sized mailing house in Shreveport, had bad news and good news for his client.

The bad news: Sepulvado's monthly tabloid-size mailing, featuring sales at the 38 Ivan Smith Furniture stores he manages, would be too expensive to send to the neighborhoods he typically targets in his 120-mile-radius market territory. The mail-based marketing plan Sepulvado had relied upon for five years had been torpedoed in effect by postal reclassification, which raised rates for some classes of mail and reduced rates for others effective July 1.

The good news: By sending Sepulvado's tabloid to every address in certain ZIP codes and combining it with the advertising mail of other businesses, Riordan could save both of them money by qualifying for a lower postal rate. Hoping to gain as many new customers as possible, Sepulvado decided to plow those savings back into even more mailings, which would increase not only his business but Riordan's as well.

For both companies, "it was like water hitting dry ground," says Riordan. "It's nickels and dimes. But this is a nickel-and-dime business."

The synergism that the two Louisianians crafted was not replicated by, or even possible for, many other business people around the country in the wake of the 1996 postal changes. Certain mailing houses and their clients—particularly small and medium-sized magazines and catalog businesses—wound up paying more, mailing less, or both.

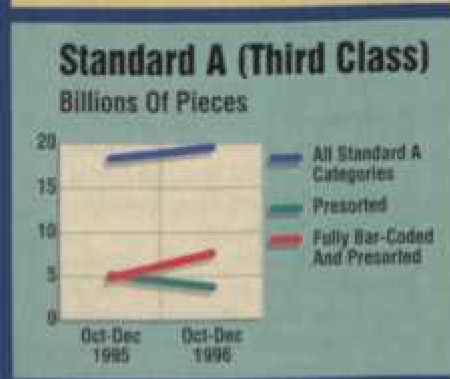
Large mailers, particularly those handling big volumes of highly automated advertising mail, generally came out ahead if they did as much presorting, bar-coding, and carrier-route saturation as possible.

Preliminary statistics indicate that the rate changes have altered mailers' behavior as Postal Service officials had expected. When mail is highly prepared for automated processing before it reaches the post office, the agency can save processing costs by minimizing labor.

Merging mail *reduced costs for National Mail-It President Michael A. Riordan, left, and fellow Shreveport, La., businessman Al Sepulvado, a furniture executive.*

Rate Changes Increase Automation By Mailers

Recent Postal Service data show the effects of new discounts designed to get companies and their mailing houses to put accurate bar codes on mail, presort mail, and prepare materials in other ways that minimize the Postal Service's hands-on processing.



In the last three months of 1996, fully presorted and bar-coded "standard" mail, including promotional items such as fliers and brochures, increased by 2.8 billion pieces—or nearly 60 percent—from the same period a year earlier. Postal officials attribute about half of that increase to mailers who shifted their mailings into the lowest rate category by doing additional preparation for automated processing before dropping off their mail at post offices. The other half consisted of new mailings, officials say. (See the chart on this page.)

The Postal Service is pleased by the numbers, but some mail-industry spokesmen say the jury is still out on reclassification.

"There has been an enormous shifting of cost to the mailer," says Gene A. Del Polito, president of the Advertising Mail Marketing Association in Washington, D.C.

"The real test of reclassification," says Postal Rate Commission Chairman Edward Gleiman, "is can the Postal Service capture the purported cost savings?" If automation enables the Postal Service to save enough in operating costs to offset reduced revenue attributable to lower rates, "everybody wins," says Gleiman. But if not, he says, the agency might be forced to raise rates eventually.

Officials and mailers offer the following tips for companies struggling with reclassification:

- Contact a postal software vendor for help in producing mailing labels with bar codes, presorting mail by ZIP code, checking address accuracy regularly, and sending mail in large batches—keys to reduced rates.
- Consider contracting out mail services to take full advantage of rate breaks. Some firms will prepare mail for delivery to the Postal Service for as little as a penny per item.
- Look into sharing mail services with others, as furniture-company executive Sepulvado does.

Sepulvado says he never considered asking mail-service provider Riordan for a rebate when Sepulvado's ads qualified for a lower postal rate last year. Riordan had absorbed some previous postal-cost increases, so Sepulvado decided to return the favor.

Under the new rate system, Sepulvado sees a "domino effect—the more attractive the Postal Service can make it for me, the more business they're going to get." He wants the Postal Service to profit from reclassification so it can ward off future rate increases, he says. "I love it when they make a lot of money."

Washington, D.C. "Unless it is instilled with this kind of driving force, any effort at postal reform will fall short of the mark."

"The Postal Service at the moment is functioning quite well. Service is up and prices are stable," says Arthur Sackler, a vice president of media and entertainment giant Time Warner Inc. "The question is: How long can that continue?"

The Postal Service now handles about 60 percent of the nation's business-to-business mail, and some in the industry say the figure might drop to 40 percent within five years. Even with its recent upsurge in advertising mail and Priority Mail, the Postal Service's total mail volume increased only 1 percent last year.

Deficit Forecast

Personnel and benefits account for about 80 percent of the agency's $58 billion annual budget. Current labor contracts run until November 1998, and the next round of negotiations "will be a defining moment for this organization," says Runyon.

He says he hopes to keep the first-class stamp fixed at 32 cents for as long as possible—until 1998, if not 2000. However, the Postal Service has a tentative forecast of a $1.8 billion deficit for fiscal 1998, which begins Oct. 1, 1997.

In the *Nation's Business* interview, Runyon said regaining ground from competitors is crucial. "Before they existed, there was a Postal Service. ... Somebody comes along and says, 'Here's something the post office does. I think I can do this part of the business better.' And so they take a niche," such as parcel boxing or delivery service.

Post office customers "come to us, and they want parcels [service], and somebody else says, 'Wait a minute, this isn't fair; we were in this business.'

"We're doing what our customers want us to do," said Runyon. He added that the Postal Service doesn't expect a monopoly on all communications services. "We don't go to the mat and say, 'Shut down the fax machines; they're competing.'"

The postmaster general said new products and services will also be essential. Some being tested involve electronic communications, such as an "electronic postmark" affixed to Internet-transmitted correspondence, giving the Postal Service's guarantee that the message has not been corrupted.

Global ePOST would send a business message electronically to a postal facility in a destination city across the country or in a foreign nation, where the message would be printed out and delivered as hard-copy mail. In addition, postal officials hope to increase international mail volume dramatically.

Advice Abounds

While no consensus has emerged on how the Postal Service should function, there is no shortage of advice.

Edward Gleiman, chairman of the PRC, agrees with many mail-industry executives that the Postal Service should put more emphasis on cutting costs than on new products and services that stray from its principal business of delivering the mail: "I don't necessarily believe that the Postal Service has to grow to survive."

Some business people say that although America needs an effective postal system, it doesn't necessarily need the Postal Service. "We should start over," says Carol L. Ball, CEO of Ball Publishing Co. in Greenville, Ohio.

Jerry Cerasale, senior vice president of the Direct Marketing Association, a Washington, D.C.-based trade group that represents business-solicitation mailers, says the Postal Service shouldn't be freed from all regulation. But Cerasale adds, "You have got to give the Postal Service some flexibility so it can go forward and try to survive, even if [officials] make some mistakes along the way." NB

Postal Reform

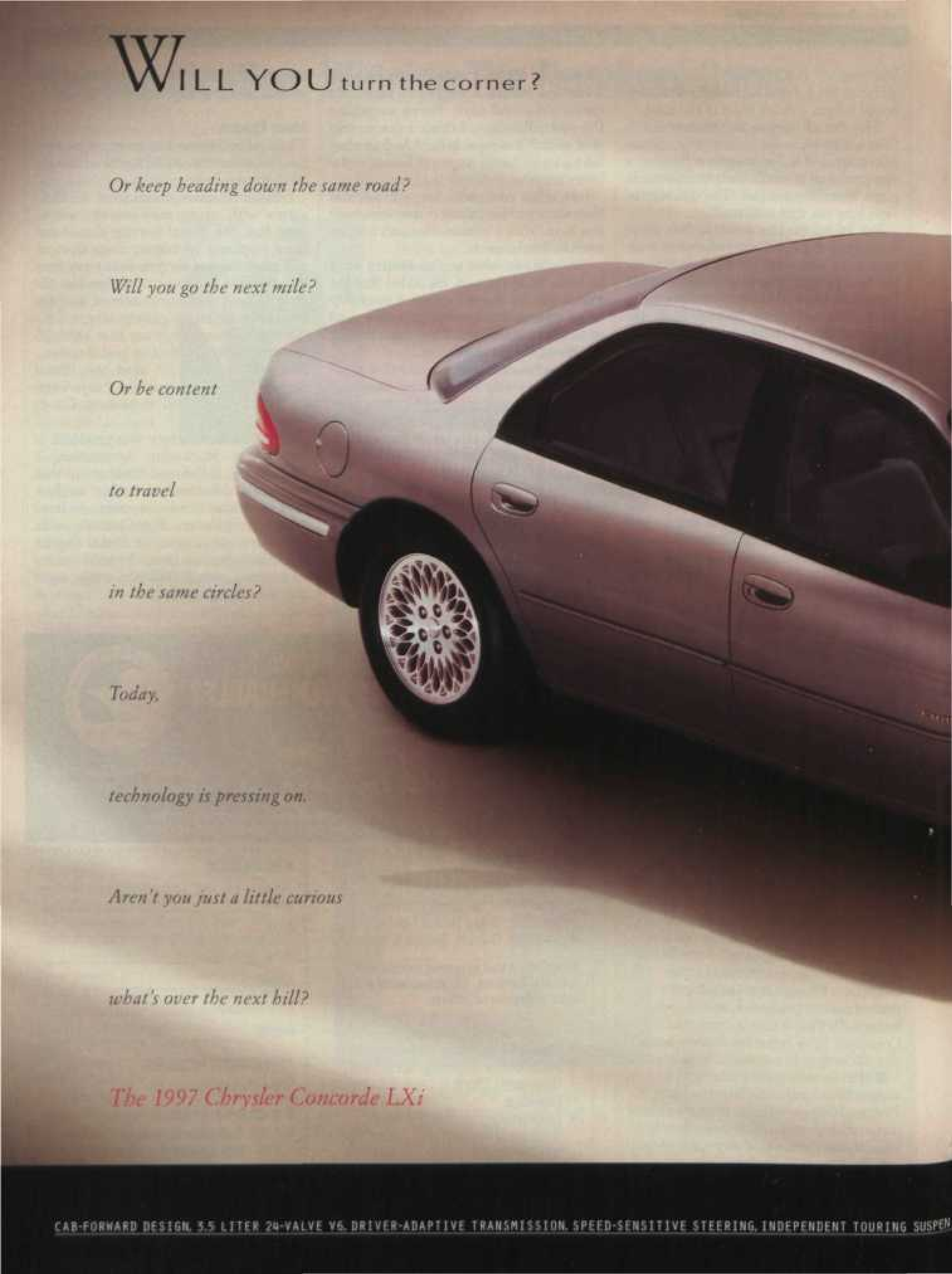
Here are the key features of the postal-reform bill (H.R.22) introduced by Rep. John McHugh, R-N.Y., chairman of the House postal subcommittee:

■ Mail over which the Postal Service has a legal monopoly would be divided into four "baskets": single-piece, first-class letters and cards; other first-class mail; periodicals (formerly second class); and standard mail (formerly third class). The rates for each basket could be adjusted annually by the Postal Service without approval by the Postal Rate Commission.

Increases would be subject to caps based on a formula that includes the gross domestic product chain-type price index (GDPPI)—which is similar to the Consumer Price Index but is more sensitive to changes in consumption patterns.

■ Mail for which the Postal Service has competition—including Express Mail, Priority Mail, parcel post, mailgrams, and international mail—could be subject to annual rate increases of any amount.

■ The Postal Service would have broader discretion to offer volume discounts to mailers.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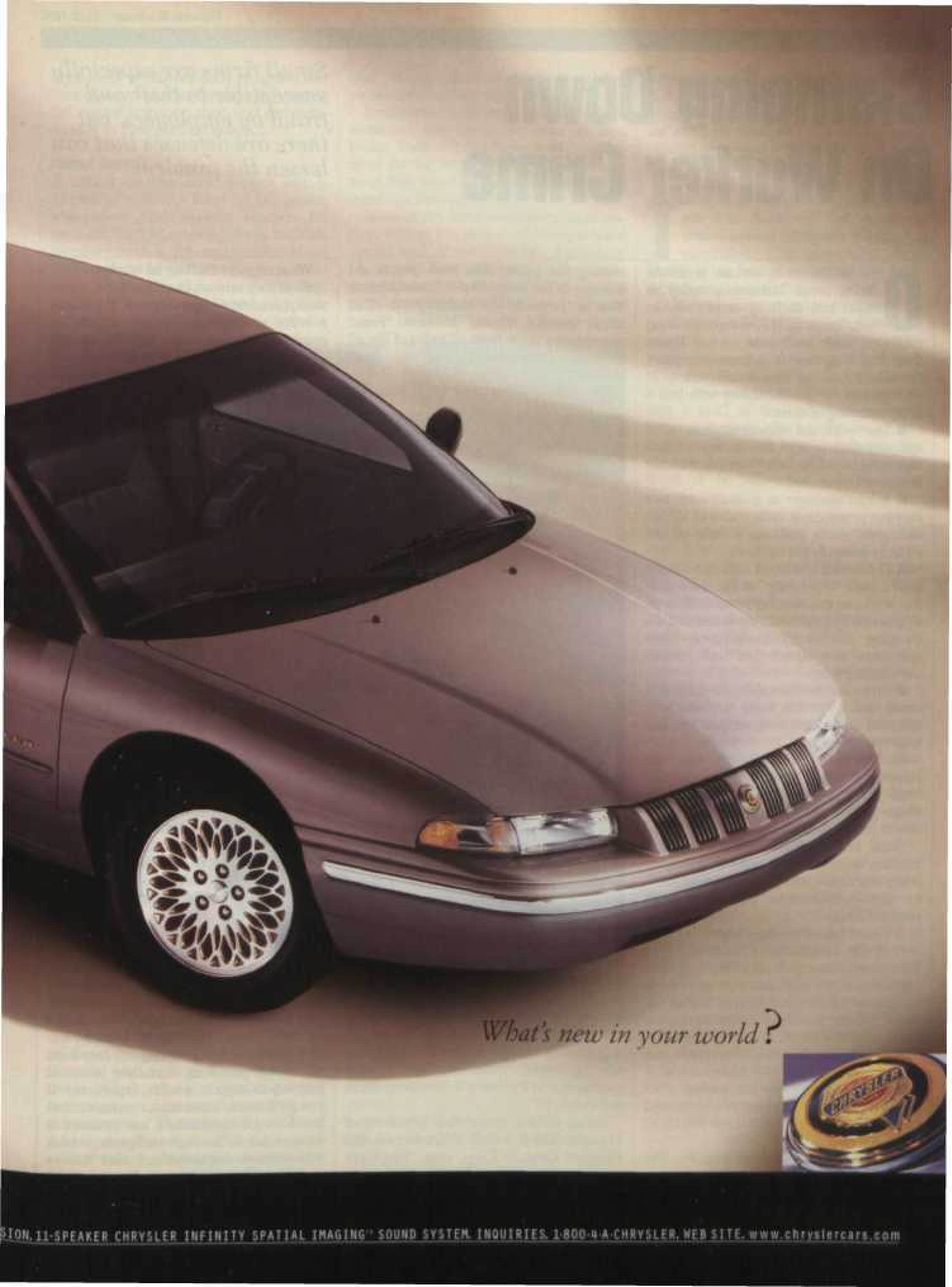
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MANAGING

Clamping Down On Worker Crime

Small firms are especially susceptible to theft and fraud by employees, but there are defenses that can lessen the problem.

By Robert T. Gray

One of the most serious problems facing small businesses today is fraud and theft by employees. In fact, losses to U.S. companies from employee theft each year exceed losses from fire, according to insurance-industry estimates. And the extent and variety of such crimes can be illustrated with just a small sampling of cases:

■ The work-site superintendent of a company that repairs fire-damaged buildings established his own business with his employer's resources.

■ A loan manager at a small bank was keeping proceeds of collateral sold to pay delinquent debts and was writing off the loans as losses to the bank.

■ The owner of a small business considered a clerk "like family" at the same time the employee was stealing items from large shipments. The clerk sold the items, and the company unwittingly made good when customers complained that their orders were incomplete.

■ An equipment manufacturer delegated broad authority, and some workers sold company-made equipment on their own and kept the proceeds.

Such crimes exemplify not only the venality of some workers but also the employer-created environments, such as undue trust or remoteness, that are conducive to this type of abuse.

Small businesses are particularly vulnerable, experts say, because owners generally don't have effective systems to monitor key workers who are given major responsibilities.

A report based on experiences of members of the Association of Certified Fraud Examiners, based in Austin, Texas, says the costliest abuses took place in companies with fewer than 100 employees. The association, whose members help companies avoid employee crime, also found that:

■ Fraud and other employee crimes cost employers more than $400 billion a year, or an average of $9 per day per worker.

■ Men, who account for about 54 percent of those employed, commit three-fourths of such abuses.

■ Losses caused by managers are four times costlier than those by employees.

Joseph T. Wells, founder and chairman of the fraud-examiners association, warns business people against uncritically accepting the notion that most people are immune to the temptation to commit fraud. This is "probably the biggest myth of all about financial crimes," he says. "Fraud perpetrators come from all walks of life, all economic circumstances, and all social classes."

The Surety Association of America, an organization of 650 insurance companies offering fidelity insurance, says, "Every employee is in a position to steal from his or her employer."

Susan Drake, senior vice president of Travelers Bond, a unit of Travelers-Aetna Property Casualty Corp., says, "Employee dishonesty is just like a fire, storm, or other natural disaster—it's an unexpected loss that can cause a company or business to collapse."

PHOTO: [illegible] LEVINE—THE STOCK MARKET

Pre-employment screening *of a job applicant should include a thorough background check—authorized by the applicant.*

What triggers theft by an employee?

Some common instigators, says workplace-crime expert Jane Y. Kusic, are a crisis in personal finances, a drug or gambling habit, revenge against an employer, a nonfinancial personal crisis, and acceptance of employment with intention to steal. Kusic is owner and president of White Collar Crime 101, a McLean, Va., firm that advises businesses on ways to avoid becoming victims of employee fraud and theft. The first thing to remember, she says, is that "no employee is above suspicion."

A business owner's defenses against employee theft fall into a few general categories. One is employee screening, particularly at the hiring stage. Another category consists of internal controls, especially regarding financial matters, inventory, and cash disbursement. A third type of defense is prevention of computer-related theft—whether it's of hardware or software. Following are some details.

Employee Screening

Companies that specialize in pre-employment screening, including tests designed to assess applicants' honesty, can be a major aid. Drug testing can help head off many problems, including eventual thievery to support a habit, experts say. If you go it alone, Kusic says, remember that fraud on job applications and résumés is widespread. A thorough background check with previous employers and other sources is critical. Kusic advises employers to have applicants sign release forms authorizing background checks.

Although it should be obvious, Kusic

says, many employers don't recognize that "one of the most effective ways of lowering the risk of employee theft and embezzlement is by hiring honest people."

Internal Controls

A critical element here, experts say, is division of authority. Don't let the person who orders goods approve vouchers for payment; don't let receiving clerks maintain inventory records. An employee should not both issue checks and reconcile bank statements. Physical safeguards should limit employees' access to checks and petty cash.

Owners should frequently review the books, looking for clues such as missing documents, unexplained past-due entries, excessive voiding of entries, duplicate payments, and questionable transactions.

Edward J. McMillan, a CPA with McMillan & Associates in Lothian, Md., who lectures on financial and management subjects affecting nonprofit organizations, says: "The two basic types of internal control systems are controls over checks received and over check disbursements."

One safeguard, he says, is to have checks endorsed with a "For Deposit Only" stamp by the person who opens the mail—before the checks enter the processing stream. The endorsement should include the firm's name, bank, and account number, he adds.

McMillan advises organizations that receive large numbers of checks to consider a lockbox arrangement under which payments go directly to a bank, which deposits them and mails deposit slips and other supporting documentation to the payee.

The report of the Association of Certified Fraud Examiners points out that most dishonest employees are caught through tips from fellow employees, and it recommends setting up a hot line to receive such information.

Drake of Travelers Bond says the principal factors in employee theft are motivation (financial need, revenge for perceived mistreatment), opportunity (being in a position to embezzle or to steal from inventory), and rationalization ("They owe me," or "I'll pay it back when I'm out of this bind.").

The Surety Association of America, whose members paid $1.3 billion in employee-theft claims from 1983 to 1994, says internal controls against such losses should include a requirement that all employees take annual vacations of at least five consecutive business days.

Employers should keep a close watch on employees who never take time off, says Drake. Their seeming dedication might be a cover for the need to keep other workers away from records that could raise serious questions, she says.

Wells of the fraud-examiners organization, who is the author of *Occupational Fraud and Abuse* (Obsidian Publishing Co., Austin, Texas; $69), says: "The classic embezzlement is the handiwork of the trusted employee working long hours and never taking a vacation. Most thefts would surface if the employee had to take hands off the job."

PHOTO: MATTHEW BORKOSKI—FOLIO, INC.

Computer crime *can range from hardware theft to document corruption and software sabotage.*

Computers

Although employees bent on theft or other transgressions against employers have generally found ways to achieve their ends, the potential for such crimes is increasing as businesses rely more on computers in all phases of their operations.

Richard L. Johnston, director of the National White Collar Crime Center, a congressionally funded federal-state project based in Richmond, Va., says computer-related abuses can range from taking hardware to theft of sophisticated software programs on which a company has staked its future. Johnston, whose organization provides support to law-enforcement officials in the prevention, investigation, and prosecution of economic crime, says that "95 percent of criminals today are not computer-literate" but that "90 percent will achieve computer literacy within the next decade."

Company owners should "educate themselves, get involved, learn how they can monitor computer activity the same way they monitor other aspects of their businesses," Johnston says. He cites a Michigan State University survey showing that most computer-related crimes target "confidential client information, trade secrets, new-product plans and descriptions, and product-pricing information."

Though safeguards can help, experts see little likelihood that employee crimes against employers will ever be eliminated. That recognition, says Drake, is the basis for insurance coverage against employee theft.

Although such coverage is growing in popularity—sales at Travelers Bond, for example, have been climbing 10 percent a year—Drake says that many small-business people still give top priority to traditional areas of coverage and assume that a staff of trusted employees and internal controls afford sufficient protection against losses from dishonesty. But even the best internal controls can break down or be subverted by determined thieves, she adds.

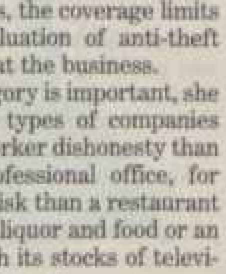
"In 90 percent of the cases in which people steal from their companies," she says, "the employer would probably have described that person, right up to the time the crime was discovered, as a trusted employee."

The cost of insurance coverage against employee dishonesty, Drake says, is geared to the type of business, the number of employees, the coverage limits chosen, and an evaluation of anti-theft procedures in place at the business.

The business category is important, she says, because some types of companies are more prone to worker dishonesty than others. A small professional office, for example, is a lower risk than a restaurant with its inventory of liquor and food or an electronics store with its stocks of televisions and stereo equipment.

Drake emphasizes the importance of screening during the hiring process and constant monitoring to spot changes in employee attitudes that could signal problems. She says it's surprising how often an employee can display sudden affluence—expensive clothes, cars, and jewelry, for example—and yet the employer is not prompted to look into whether company funds are financing such acquisitions.

Drake's message to employers reflects the view of the broad spectrum of businesses, organizations, and individuals who focus on ways to curb employee dishonesty: "There is only one way that people get into positions where they can steal from you: You put them there." NB



LESSONS OF LEADERSHIP

In Business For The Long Haul

The U.S. Chamber of Commerce's new chairman is a trucking entrepreneur who will keep the wheels turning for pro-business initiatives.

By Albert G. Holzinger

The story of Michael S. Starnes, chairman, president, and chief executive officer of M.S. Carriers, Inc., of Memphis, Tenn., is a tale of entrepreneurial achievement of grand proportion.

His trucking business, started with his wife from their home less than 20 years ago, will gross an estimated $400 million in sales this year while employing about 3,300. Moreover, Starnes, 52, recently was named 1997 chairman of the world's largest business federation, the U.S. Chamber of Commerce.

Almost from the beginning, it was apparent that Starnes was determined to make something of himself. Growing up as the oldest of four children on a farm in Oxford, Miss., he began working at a young age—including a stint selling soft drinks during football games at the nearby University of Mississippi.

He graduated from that school in 1968 with a bachelor's degree in business administration. His tuition was paid largely with money earned driving a delivery truck in Oxford for Rebel Motor Freight, a small business owned in part by his father.

Fresh out of school, Starnes accepted what he calls "some menial job" at General Electric Co. in Memphis, about 60 miles away. After about eight months, GE identified his potential and offered him management training. But he declined because it would have required frequent relocations, an unpalatable prospect for him as he was about to marry his college sweetheart, Nancye.

Instead, Starnes accepted a sales-representative job in the Memphis office of Western Gillette, a Los Angeles-based trucking operation acquired in 1975 by Roadway Services Inc. Western Gillette had 92 territories at the time, and Memphis was at the bottom on the productivity list.

"I took the territory to No. 1 in a year, and the guys in L.A. asked, 'Who is that masked man?'" Starnes says with a laugh. Turning more serious, Starnes says in his self-effacing manner: "I was just lucky. The territory had a lot of good potential customers, but it hadn't been worked very hard."

Western Gillette soon named him manager of the company's terminal in Fresno, Calif. Then he was reassigned to a troubled terminal in El Paso, Texas, and the company's plans for him became apparent. "They intended to keep sending me wherever they had problems," he says.

The prospect of frequent relocations remained unappealing to Starnes, so he returned to Rebel Motor Freight as day-to-day operations manager. Within five years, he doubled the company's sales, to about $5 million. Yet all was not well internally. His father's two partners had become disgruntled about their diminished influence on the firm's direction since the younger Starnes had joined the operation. "It wasn't a very pleasant situation," Starnes recalls. "It made me uneasy, and I knew it was time to leave."

In 1978, with his father's blessing and at the still-young age of 33, Starnes and his wife founded M.S. Carriers. Their operating capital amounted to $10,000 in savings and a $20,000 bank line of credit. For six months, a spare bedroom in the Starnes home in Memphis was large enough to house the fledgling company, which operated a solitary truck.

But even though Starnes initially was short on capital, hauling capacity, and working space, he was long on confidence. "I had a customer base in Memphis and a good track record and a high integrity level," he says. "Also, there had been talk in Congress about deregulating trucking. I sensed that it would actually happen and felt that when it did, I'd be in a good position to grow and expand in a free market."

PHOTO: T. MICHAEL KEZA

A single truck *was all Michael S. Starnes' company owned in 1978; now it has 2,500.*

In 1980, the landmark Motor Carrier Act, which deregulated the transport of goods across state lines, was enacted. (Intrastate trucking was not deregulated until 1995.) Although the M.S. Carriers fleet had grown to about 50 trucks by the Jan. 1, 1981, effective date of interstate deregulation, its growth had been hard-won. "I spent about half my time the first two years in my attorney's office, which was just ridiculous," Starnes remembers. "Deregulation was a great relief. And it was fun."

The new competition among trucking companies began changing the conventional wisdom among manufacturers that the most reliable, cost-effective way to get

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goods to and from suppliers, subsidiaries, and customers was via private fleets.

"Manufacturers began realizing that getting goods delivered didn't have to mean tying up capital in trucks and being in the trucking business," Starnes says. "We became heroes to the shipping public. We could move their products anywhere in less time than it had taken before and much cheaper. And we made a lot of money in the process."

Indeed, from 1981 to 1986, M.S. Carriers grew by an annual average of 47 percent in both revenues and net income, to $34.8 million and $3.6 million, respectively.

In 1986, when M.S. Carriers had about 250 trucks and was still growing rapidly, Starnes made what he still calls his most "major, major decision." He took the firm public. The public offering "was good for me personally and for the company," Starnes says. "I had all my money tied up in M.S. Carriers, so it gave me some liquidity. And it gave the company the capital it needed to continue expanding."

Nevertheless, the stock offering was scary to Starnes for two reasons. First, it conjured up memories of his father's struggle to operate a business without full ownership control. Second, it subjected Starnes to unrelenting quarter-to-quarter performance expectations of industry analysts and shareholders.

"Since we've gone public, I've had to make good decisions that, short term, were not appealing to Wall Street, and I took a hit on our share price," acknowledges Starnes, who currently owns about 25 percent of M.S. Carriers' stock. "But I do believe that being public makes you a better manager because you have to stay focused all the time. It makes you get in earlier, stay later, and work harder just because of the additional pressure."

Like the trucks that comprise it, M.S. Carriers has seldom stood still in its decade of operation as a public company with Starnes at the wheel.

Internally, Starnes has broadened the company's management structure. He has added experts in business areas where he believes he has weaknesses, such as finance and truck maintenance, while retaining key roles in his own areas of strength, notably sales and customer service.

"One of my philosophies from the very start was to get the very best people you possibly can to run your company," Starnes says. "I'm just one guy. We have very high standards here for everybody from top management to our drivers, who make up 75 percent of our employees."

PHOTO: T. MICHAEL KEZA

Satellite-communications *technology links truck drivers with managers, including CEO Michael S. Starnes, right, and M.J. Barrow, senior vice president for finance and administration.*

Externally, Starnes has broadened the company's service capabilities and scope of operations. For example, in 1993 he entered the logistics business. This involves assuming responsibility for delivery of raw materials from suppliers to a manufacturer-customer as needed while seeing to it that the finished goods produced by the manufacturer get to customers on time.

And in early 1995, he opened a West Coast hub in Fontana, Calif., and began taking on customers in the Western third of the United States. Interestingly, the onset of operations in the West came a full eight years after Starnes entered the Mexican market.

During his stint with Western Gillette in the border city of El Paso, Starnes observed both the business potential and the potential pitfalls of operating in Mexico. On balance, however, he saw more good than bad. Consequently, he says, when his own company "got to the point where it had the capital and the size to be a factor in Mexico, I told our people that we needed to be there. I felt that, long term, it was going to be a good place to be." His feeling proved to be correct. "We struggled for several years. Mexico is a hard place to do business," Starnes says. "But it's paid off for us, and about 10 percent of our revenue now is in and out of Mexico."

To support the ever-increasing size and scope of M.S. Carriers' operations, the company invested heavily in communications technology. For example, a satellite-based tracking system installed in 1993 constantly keeps tabs on M.S. Carriers' fleet of trucks as they crisscross the continent.

Related software advises dispatchers every three minutes which truck should get which load of freight, based on more than 100 factors such as the trucks' distances from the loads. "I'm not a high-tech person," says Starnes, "but I recognize the advantages and strengths of technology. I believe those companies that have the best systems are going to win long term."

Starnes says he also believes deeply "in giving back to society and to the system that has allowed me to be successful professionally beyond my wildest dreams."

In 1994, he acknowledged the value of the education he received at his alma mater with a $1 million contribution toward construction of an athletic-training facility. And this year Starnes will devote much time to his U.S. Chamber chairmanship, traveling across America to mobilize fellow entrepreneurs in support of pro-business legislative initiatives in Congress, notably efforts to balance the federal budget and to reform the nation's regulatory, legal, and workforce-preparation systems.

"I'm concerned about the health of the economic environment that's enabled small businesses like mine to incubate and grow and expand and flourish," Starnes explains. "If Congress doesn't balance the budget, continues to impose regulations on business, and keeps raising taxes, we're going to get to the point soon where entrepreneurs like myself are going to look at the negative things they've got to contend with and say, 'I don't believe it's worth it.'" NB

SMALL BUSINESS TECHNOLOGY

Handy Tools For Training

Small-business owners are using a variety of affordable, convenient options to help their employees learn to use computer software.

By Tim McCollum

PHOTO: ©BARRY STAVER

Computer training *is as handy and affordable as a video, says Randy Pickering, who encourages mechanic Rick Applehans and others at his auto-repair shop to use his library of training tapes.*

Learn how to use your computer by watching TV.

Sounds like one of those late-night television ads—a little too good to be true. But true it is for Randy Pickering, who uses videos to learn how to make the most of the latest software in his automobile-repair business.

For the past year, Pickering has been using videotapes from Jones Education Co. (1-800-727-5663) in Englewood, Colo., to teach himself how to use Microsoft Corp.'s Windows 95 operating system. Pickering says his company, Pickering's Automotive, Inc., in Lakewood, Colo., has begun relying heavily on computers in its business office. The tapes have shown him how Windows 95 works and have pointed out shortcuts that enable him to work more effectively.

"I'm always learning and finding those open doorways that I can go through," he says. "I can run [a tape] backward and forward and stop if I don't understand something."

Video is one of the solutions that small-business owners have discovered for the problem of obtaining affordable and convenient computer training. Such training becomes increasingly necessary as small firms become more dependent on computers. Ideally, employees bring basic computer skills to the job. But software changes rapidly, adding new features and sometimes requiring users to learn new ways of working. Training helps them become productive faster.

Pickering has encouraged his technicians and office employees to use the videos in his tape library, which he recently expanded to include the Internet and desktop software applications such as Microsoft Publisher. Employees can watch the tapes at their convenience, he notes. "One thing I like about the tapes is I can plug them in and get done with them before I go to work or after hours. It gives me the flexibility to do it on my own time."

Learning To Use The Tool

"People are the most important part of computers," says Lori DeVore, CEO of DeVore Technologies Inc., a computer-training and computer-integration company in Bedford, Ohio. "The computer is just a tool. . . . It's important to learn how to apply that tool to meet the objectives of the business."

Until recently, large companies with in-house training staffs or large training budgets had a distinct advantage over small businesses. Lacking such resources, small companies have often let training slide. Outside training courses can be expensive, and many business owners are reluctant to let employees miss work to attend them. As a result, employees who need to learn more about software applications frequently have to hunt for answers in arcane manuals or rely on co-workers.

These days, small companies have more options, including video and computer-based training, which can be done inexpensively and quickly, minimizing lost time on the job for employees.

Even traditional training courses are changing with business needs, says DeVore. Companies such as hers have begun using portable computers to take training to customer sites, and they offer classes that are customized to a company's type of business and its employees' individual levels of competence.

DeVore contends that classroom training remains the best approach because it provides more hands-on instruction and greater interactivity between instructor and student than are possible with videos or CD-ROMs. "Computer-based training is a good reinforcement tool, but classroom training is better for learning how to use an application," she says. "Interacting with a real person where you can ask questions is better."

A Preference For Classes

Such hands-on instruction was an important criterion for Michael Beerer, president of PF Micro, a computer-integration firm in Costa Mesa, Calif., when he needed to provide technical training for his 14 employees. Beerer, whose company sells and installs computer systems for retailers, decided to send his technicians to the Santa Ana, Calif., location of New Horizons Computer Learning Centers Inc. to learn about networking technologies such as Microsoft's Windows NT and Novell Inc.'s NetWare.

Beerer says training is necessary to keep

PF Micro's staff current on the latest technologies. Until last year, PF Micro had trained its employees itself, but Beerer says that developing course materials cost too much money and took too much time. He says it is easier and more efficient to send employees to New Horizons. "Training in our industry is an ongoing thing," says Beerer. "It makes more sense to send people out to get training."

Beerer's preference for computer training through classes, as opposed to computer-based or video training, is common among U.S. businesses. A study released in February by Lakewood Publications and *Training Magazine* reports that instructor-led training accounts for 83 percent of the amount budgeted by U.S. companies for information-technology training.

Learning By Computer

Many small-business owners, however, are turning to computer-based programs to teach people software skills.

Computer-based training involves software that teaches people how to use particular software applications. These programs use text and graphical instructions as well as examples to lead people through various aspects of the software at their own pace. Multimedia CD-ROMs feature sound and video as well as text and graphics, allowing students to hear and see the skills demonstrated.

That was the appeal for George Krzyzewski, who manages World Wide Web development for Open Doors Automation Inc. in North Salem, N.Y., a firm that designs Web pages for import companies. Several months ago, designers at Open Doors expressed an interest in learning the Java programming language for use in adding music and video to clients' Web pages. But the designers, who didn't have programming backgrounds, were afraid that a training course would be too technical. They also wanted a training method they could work with on their own time and at their own pace.

With that in mind, Krzyzewski purchased a series of Java training CD-ROMs from MindQ Publishing Inc. (1-800-646-3008) in Herndon, Va. Each disc is geared to a different level of expertise, from beginner to advanced, and the designers have been able to learn the basics of Java.

"This has really helped them," Krzyzewski says. "They don't want to go through a lot of computer science. They just want to understand the concept."

This sort of "just-in-time" training is a major advantage of computer-based programs, says Brandon Hall, editor of the *Multimedia and Internet Training Newsletter* in Sunnyvale, Calif. Hall says computer-based training can cut training costs and time in half compared with software classes because it allows students to concentrate on the topics and skills in which they need the most instruction. And many useful programs are available in computer stores or by mail order starting at around $100.

PHOTO: [illegible]

Web-site developer *George Krzyzewski chose CD-ROMs to help designers such as Helga E. Pérez (in the background) teach themselves how to add video and music to clients' Web pages.*

Hall likens computer-based training to having a personal tutor, one who has become even more effective with the advent of multimedia features, which he says enable people to interact more directly with the software they are learning to use.

Some software has the training linked to the program so users can learn the program even as they use it. Tutorials and software "wizards" are becoming common features in application software.

The On-Line Promise

Another emerging source of training is the Internet, says Hall. Training-software publisher Soft-One Corp. (1-800-235-3276) in Orem, Utah, through its Web site (*www.softone.com*) lets people download and try out its ClassAct software for learning popular desktop applications.

At present, the slow speed of the Internet makes delivering real-time training impractical, but Hall says people may eventually be able to download software or enroll in on-line training courses as they need them.

The various computer-training options are proving to be a big plus for entrepreneurs looking for a quick, easy, and inexpensive way to build computer skills within their companies. Without those options, many small firms wouldn't get the help they need to make better use of their software. NB

The Best Learning Experiences

Experts emphasize that all software training isn't created equal. These suggestions can help you make the best choices for your firm.

Classes

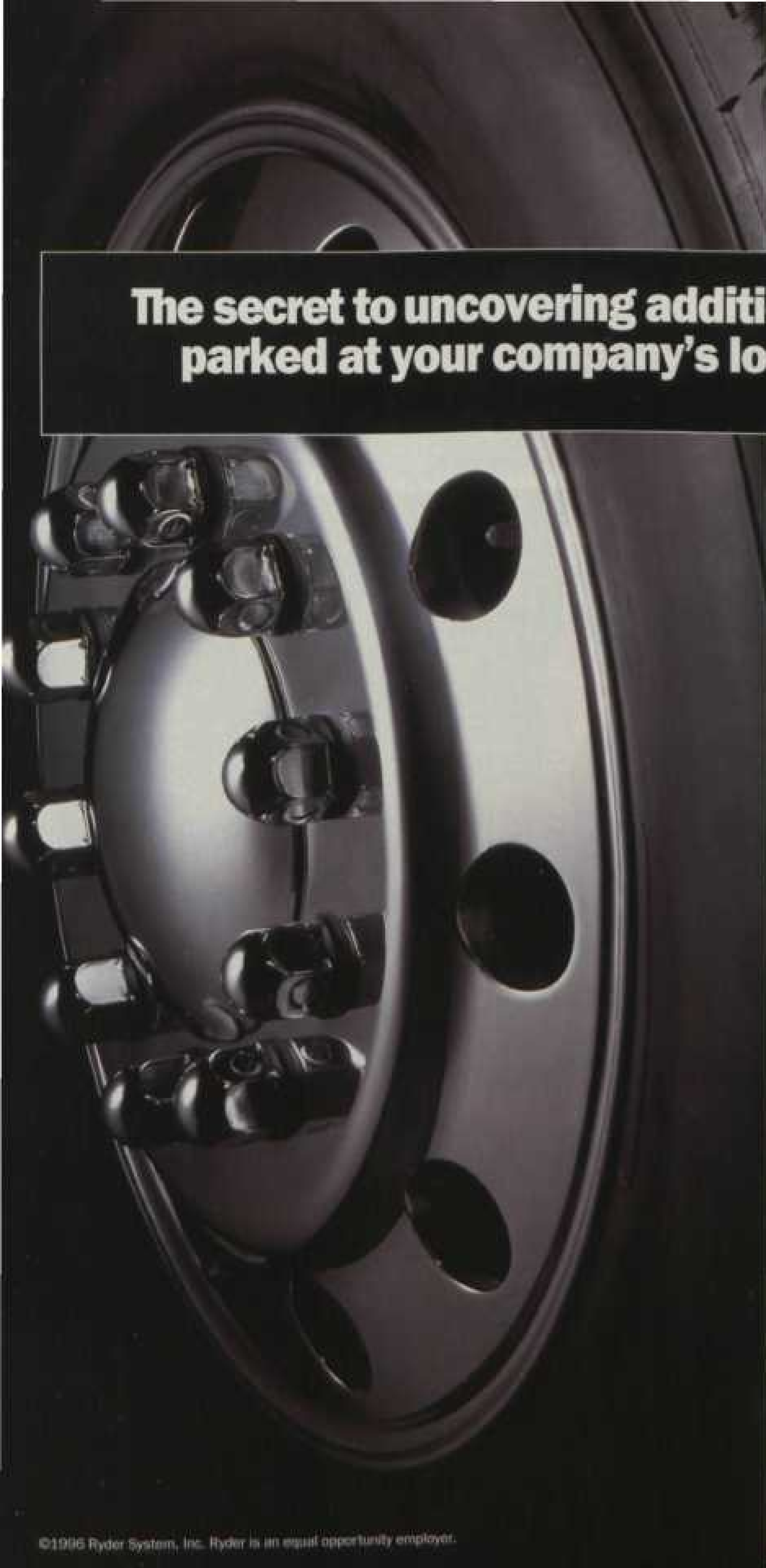
Lori DeVore of DeVore Technologies in Bedford, Ohio, says small firms should seek these characteristics in training courses:

- "Generic" courses should be avoided.
- Content should fit the needs of your company and your employees.
- Classes should provide hands-on instruction, with one computer for each student.
- Classes should be small; six or fewer students is best.
- Students should be at approximately the same skill level.
- Instructors should provide individual attention.

Software And Videotapes

Brandon Hall, editor of the *Multimedia and Internet Training Newsletter*, offers these hints for selecting training software and videotapes:

- With software, ask for a demonstration copy before you buy, to see how the program works.
- Software and videotape content should be informative and interesting.
- Software should be easy to use.
- Students should be able to skip lessons they have already mastered.
- The training should be divided into sections, with quizzes or activities at the end of each so students can evaluate how much they have learned.



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FINANCE

Rebounding With A Nonbank Loan

Here's how one company with financial troubles got back on the road to success with the help of a nonbank lender.

By Roberta Reynes

Tom Mattox lived through one of an entrepreneur's worst nightmares when the market for his company's products evaporated.

Retreading Equipment, Inc., in Charlotte, N.C., had been founded by Mattox's father as a manufacturer of machinery to retread bias-ply tires. But by the early 1980s, radial-ply tires had largely replaced bias-ply tires, and the retreading (or "recapping") process didn't work on radials. Also, recapped tires became less attractive to consumers as prices for new tires declined.

The equipment manufacturer's sales plummeted nearly 40 percent. Its dealers began filing for bankruptcy.

Even worse, the company had made financial decisions that came back to haunt it. It had offered dealers contracts to pay for their equipment purchases over time, then traded those contracts to banks in exchange for 90 percent of the face value of each contract, payable immediately. But Retreading had guaranteed the notes, so as dealers defaulted, their unpaid loan balances landed in Tom Mattox's lap.

Cash flow was squeezed down to a dribble. The company took out bank loans just to fund operations. Then, in the mid-1980s, the design of radials changed, making them easier to recap. The company adapted its equipment to retread the new, higher-priced specialty tires, such as those for four-wheel-drive vehicles. As a result, sales rebounded about 20 percent.

Despite the improvement, the company struggled unsuccessfully into the 1990s to bring down its loan balances. "As we would pay loans down, more dealers would go bankrupt, sending our balances back up again," recalls Denis L. Hayes, a CPA and certified managerial accountant whom Mattox hired as controller in 1990.

Assets Frozen

The company was in a serious bind. It fell behind on taxes. By mid-1993, the financial institutions to which it owed money—three banks and a commercial finance company—held all the company's assets, everything from accounts receivable to equipment, as collateral on the loans.

Because all of Retreading's assets were tied up, the company found it next to impossible to persuade other lenders to accept the assets as guarantees for additional loans.

Further, nothing could be sold to raise cash.

The company was just beginning to export. But the freezing of assets, combined with an extremely tight cash flow, prevented it from seizing the opportunities that Mattox believed were there.

Hayes went to the financial institutions to ask them to release some of the assets and to provide longer payment terms. They refused.

Equipment manufacturer *Tom Mattox, left, and his firm's controller, Denis L. Hayes, won a longer life for the company with a $750,000 loan from GE Capital Small Business Finance Corp. At right is Kale B. Gaston, a vice president of the nonbank lender.*

Next, he worked with a consultant who said he had good contacts with various lenders. But the consultant wasn't able to help, either.

In September 1993, the company turned to GE Capital Small Business Finance Corp., a nonbank lender that is a subsidiary of General Electric Co. with 40 offices nationwide. Nonbank lenders generally team up with the U.S. Small Business Administration to provide long-term SBA-guaranteed loans at rates comparable to those of banks.

But GE Capital SBFC, which has about 2,350 SBA-guaranteed and other loans on

This story is part of a continuing series on ways that small companies can locate the financing they need to run their businesses.

its books, turned down Retreading, too, although it left the door open to further discussions.

Retreading had been profitable for two years; GE Capital wanted to see a third. It also wanted the last of the dealer contracts that Retreading had traded to banks to be fulfilled. If these conditions could be met, GE said, it could do business with Retreading.

Any potential time-consuming snafu was now a cause for worry to Mattox and Hayes. If the company didn't get financing soon, it would probably go bankrupt.

"Up until that point, no financial institution had called its note or demanded payment in full," says Hayes. But he knew the banks could. "Some of these notes were old and had matured. The banks had just continued the note without enforcing collection. If they did that, it would force us into bankruptcy."

> "People know that we were able to get the loan from GE Capital; that increases our credibility."
>
> —Denis L. Hayes, Retreading Equipment, Inc.

A Note Of Encouragement

By late December 1994, Retreading had met GE Capital's conditions. The company submitted an application requesting $750,000, along with the required loan documents. GE came back with questions or calls for more information three or four times. Weeks of waiting turned into months.

At one point, GE Capital SBFC loan officer Everett Walker called Hayes to say that the SBA had just imposed a lending cap of $500,000. But Retreading urgently needed the full $750,000. GE Capital eventually offered a nonguaranteed loan for $250,000 to make up the difference, but this caused further delay.

Through all this, there was a steady stream of communication between Retreading and GE Capital. "We worked with them on an almost daily basis to get the project completed," says Kale B. Gaston, a GE Capital SBFC vice president and manager of the corporation's Southeast region.

In mid-June 1995, GE Capital approved Retreading's $750,000, 15-year loan package. But Retreading's ordeal wasn't over. A routine title search turned up the disquieting fact that one of Retreading's buildings stood partly on a small piece of land that the company did not own.

The land was supposed to have been transferred to Retreading when the building was purchased, but that hadn't been done. The land was deeded to a company that no longer existed, and Hayes worried that the problem could put the deal with GE Capital at risk. But he located the heirs of the former company's owner and made a deal to purchase the small parcel.

Breathing Room

The GE Capital loans, which closed in September 1995, enabled Retreading to pay off its bank notes. As a result, the assets claimed as collateral by the banks were freed. With the longer loan terms, Retreading had access to thousands of dollars in additional cash flow each month.

The loans also provided seed money to expand Retreading's export operations.

Since then, sales have been growing at an annualized rate of 5 percent or more. The company has chalked up its fifth consecutive year of profitability. Its U.S. market—retreaders of truck and aircraft tires—is growing.

In addition, Retreading has laid the groundwork for further growth abroad. It sold a retreading system to a dealer in the United Kingdom that will both recap tires and act as Retreading's sales agent.

Retreading is exporting to Russia and China, too.

While exports account for only 10 to 20 percent of sales now, they could grow to 40 percent or more in three or four years, says Hayes.

Summarizing the transformation that has occurred since Retreading obtained the loans, Hayes says: "Getting the loan allows management to concentrate on selling the equipment—for example, by pursuing leads in foreign markets. We couldn't do that before. Just staying out of bankruptcy was taking all our time."

Retreading is just one of many small companies that have found success by obtaining financing from nonbank lenders when other avenues of finding capital seemed shut off. In fact, nonbank lenders have become the top providers of SBA-guaranteed loans.

And sometimes securing such a loan can set off a domino effect that turns a company around. Retreading's new stability, for instance, has enabled it to close deals.

"When we were having problems, it was known in the industry," says Hayes. "It may have hurt our sales. Now people know that we were able to get the loan from GE Capital; that increases our credibility in itself. We paid our creditors and the taxes we owed. People can see clearly that we're here for the long haul." NB

Roberta Reynes is a free-lance writer in Spencertown, N.Y.

Finding A Nonbank Lender

The national nonbank lenders that do the biggest volume of loans guaranteed by the U.S. Small Business Administration are AT&T Small Business Lending Corp. (1-800-221-7252), Heller First Capital Corp. (1-800-347-6430), and The Money Store Investment Corp. (1-800-722-3066). GE Capital Small Business Finance Corp. (1-800-447-2025) is also a leader.

These companies may not be the biggest nonbank lenders in your area, however. In some localities, the dominant nonbank lender is one that operates regionally rather than nationally. For example, Business Lenders (1-800-646-7689), based in Hartford, Conn., is the largest nonbank lender and the second-largest SBA lender in the Connecticut market, according to Charlie Moret, the firm's executive vice president.

What's more, options for small-business loans are expanding as established national nonbank lenders open new offices; Heller added three cities in the past year. And more entrants are joining the field. In January, American Express began offering financing for business equipment to its corporate-card holders. Later this year, it plans to launch a program of SBA-backed loans as a joint venture with AT&T Capital Corp., the parent company of AT&T Small Business Lending Corp.

How do you find the nonbank lenders in your area? Call your nearest SBA office for a list, advises Moret. Look in your phone book's blue pages under "United States Government" and then under "Small Business Administration."

Other possibilities: Get referrals from a business professional you have dealt with—an accountant or a real-estate broker, for example. Check the Yellow Pages under "Financing." Get references from other companies.

"You may want to get more than one nonbank involved," notes Denis L. Hayes, controller of Retreading Equipment, Inc., a manufacturer in Charlotte, N.C. "Then you can compare rates and terms."

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MANAGING

Balancing Your Home Business

Getting away from the traditional office brings on new challenges involving family, household distractions, and professionalism.

By Susan Biddle Jaffe

Beth Makens Long runs a $17 million-a-year sales business from the basement of her suburban Chicago home. She puts in 50-hour weeks, and she travels a lot. She could work even longer hours—and earn more—but she has chosen to put her family first. That means turning down business.

Recently, Long told her customers she had decided to drop several of the product lines that her company, Connemara Ltd., represented. As a self-employed manufacturers' representative selling equipment with price tags of $500,000 or more to the utilities industry, she lost at least $100,000 a year in commissions because of the change.

By cutting back on the amount of work she takes on, Long opted for more time with her children, 4-year-old Conor and 3-year-old Meaghan; her husband, John; and her stepdaughter, 19-year-old Kristin.

Long is among the many home-based business people who face hard choices in finding the right balance between work and family.

PHOTO: ©JOHN ZICH

Cutting back *on the workload she takes on through the company she runs out of her Orland Park, Ill., home has given Beth Makens Long more time with her children, Meaghan and Conor.*

According to Robert Strauss, a small-business and home-marketplace analyst for IDC/LINK, a New York City research firm, there are 30 million U.S. households in which someone works at home. They are divided into four categories: the full-time self-employed, such as Long; part-timers who work exclusively from home; the "corporate after-hours" set, who work from home in addition to holding an outside job; and telecommuters, whose employers let them do some or all of their work from home.

Reality Sets In

Working from home might appear to be an idyllic alternative to office work, but the reality can be quite different. The clashes between work and family become more immediate, and there are everyday challenges in trying to maintain a polished and professional work environment when the kids are screaming, the dog is barking, and the neighbor's lawn mower is roaring.

Home-based entrepreneurs and authorities on home-based businesses say that the ingredients of success for someone working from home are no different from those for a person who works outside the home. The same levels of dedication and effort are required. But the distractions are different.

"The hardest thing" that home-based workers must do "is to give themselves permission to set boundaries, to say 'I am at work,'" says Joanne H. Pratt. She started working from home in 1959 as an oil-industry consultant and now runs a home-based research firm in Houston that has studied the emergence of entrepreneurs who work from home. "If you don't set boundaries, you're always feeling the pull, always feeling guilty."

Paul Edwards, an author and expert on home-based business who works with his wife, Sarah, from their home in Santa Monica, Calif., says, "You have to define things for yourself as well as other people. When you're employed, the company defines what you have to do. When you're on your own, you have to define the structure yourself."

Once you define that structure, you must be careful to prevent it from turning away clients or potential clients, says Edwards. For example, he tells of a woman who works only in the mornings, while her children are at school. When asked by clients about her availability during the afternoon, she simply says she has "another commitment."

Most business people understand and respect this, says Edwards, and the woman can maintain the legitimacy of her business

while meeting her family's needs.

Equal in importance to setting a structure, says Lisa Roberts, mother of four and author of *How to Raise a Family and a Career Under One Roof* (Bookhaven, $15.95), is the delegation of personal and professional tasks.

"You need to think like a manager," says Roberts, who owns A Creative Type, a home-based communications consulting company in Fairfield, Conn. "Managers delegate, schedule, and monitor, and those are three things you need to do as a business owner at home. Delegate domestic as well as business skills that you can't do, like child care, or that you're not good at, like marketing or accounting."

A Separate Space

Maintaining professionalism when you're working at home is critical. You don't want the kids answering your business calls, for example. Likewise, a telecommuter should make sure the boss has no reason to believe that productivity is suffering from the arrangement.

Dedicate an office space, add a phone line for the exclusive use of your business, and have the technical capabilities—notably a fax and electronic mail—that are necessary to conduct business professionally. A separate entrance to the office area of your home may be called for if you have clients or employees who come to your office frequently.

"Bite the bullet and get some good equipment," advises Barry Stauffer, whose Alexandria, Va., home-based business provides security services for computer information systems. Stauffer installed a separate phone line and a fax line for his home office.

PHOTO: T. MICHAEL KEZA

Good equipment *is crucial for a home-based business, says Barry Stauffer, who runs a computer-security firm.*

Even with such technological improvements, people with home-based businesses often need creative approaches to problems such as where to have meetings and what to do if children can be heard during a call.

When Stauffer meets with his nine part-time staff members, all of whom work from their homes, he reserves a restaurant banquet room or a conference room in a library or a hotel rather than trying to crowd everyone into his home.

And Long says that "if the kids are downstairs and making noise in the background when the phone rings, I just explain that my board of directors is loose again."

Outgrowing The Home

Sometimes, even after taking all the right steps to balance your business and personal lives, you can come to the realization that home and business just don't mix.

People must "find out what works for them, what works for their family, and what works for their clients," says Beverley Williams, founder and president of the Rockville, Md.-based American Association of Home-Based Businesses. "If those things don't mesh, then it's not the right kind of business for you."

After 10 years of working from home, Michael Prince will soon move his pollution-control business, Blue Star Industries, to a 3,200-square-foot building 10 miles from his home in Hopewell Junction, N.Y. He simply has outgrown his home office and needs room to expand his two-member staff to 14.

"I'll enjoy going out to lunch again, seeing other people during the day," says Prince, who in 1987 moved his firm from an office in New York City to Hopewell Junction, about 80 miles north, to cut overhead. Blue Star has grown to annual sales of $1.3 million.

Nearly as important to Prince as the room for expansion is the opportunity to be away from the house. Working from home "is just too convenient," he says. "In 10 years I've never had a sick day. How do you stay home from work . . . when you're already home?"

Prince expects another benefit from moving: shorter workdays. For years he has worked 14-hour days. He would break for dinner, he says, "and go right back to the office. With the new office, whether it's 6:30, 7, or even 8 o'clock, I'll shut things down and go home." NB

There's No Place Like Home?

Check "yes" for each item below that describes your work style. Answering "no" to seven or more questions suggests that a home office probably would not be best for you and your business.

1. I am a self-starter.
2. I can avoid distractions.
3. I don't mind spending time alone.
4. I can make decisions on my own.
5. I can discipline myself to perform unpleasant but important tasks.
6. I initiate projects when things are slow.
7. I can resist the temptation to play when I should work.
8. I can ignore home-maintenance distractions if business-related work takes precedence.
9. I can take reasonable breaks from work, then return to work.
10. I don't have to be going to a meeting to get up and go.
11. I can turn away visitors who drop in without notice.
12. I can ignore the telephone if I have a deadline to meet or if I need to concentrate.
13. I can prioritize my work effectively.
14. I can set realistic timetables for getting work done.
15. I don't need feedback from others to feel secure in my abilities.
16. I am willing to type my own business correspondence, buy the stamps, and take the mail to the post office.
17. I can close off my office at the end of the day or night.
18. I don't want to turn this arrangement into an office-based home.
19. I can tune out unreasonable family demands.
20. My family is supportive of my decision to work at home.

Family Business

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OBSERVATIONS

Preparing For A Loss Of Leadership

By Sharon Nelton

Last September in this section we ran "If I Only Knew Then What I Know Now," an article that I wrote on the basis of interviews with 10 family-business owners. An important fact that struck me about this group—and a surprise discovery that was not part of the article—was that four of the families had suffered an early and unexpected loss of leadership.

In three of the families, the business leader in the previous generation had died prematurely, one of them in a tractor accident. These owners left children in their teens, 20s, or 30s. In a fourth family, the leader suddenly became ill and incapacitated, leaving the business in the hands of sons in their early 30s.

Such sudden loss of leadership might not be as pronounced or as dramatic among the total population of family businesses—although determining this would certainly be an interesting research topic. Nevertheless, I think there's something to be learned here: A business owner needs to prepare the company and the family early for the possibility that they may have to weather such a loss.

The owner needs to work on the leadership development of the younger generation; to prepare a spouse so he or she will know what to do in the event of such a loss; to do estate, succession, and strategic planning; and to pull together a set of crack advisers and outside board members who can provide strength, insight, and continuity to a family business in crisis.

To be sure, some businesses thrive despite an owner's early death. I have known wives who took over automobile dealerships after the husband's death and managed them more effectively than the husband did. I have met sons and daughters who, while in their 20s, took over the family business after the father's death and succeeded despite their youth and inexperience.

But I have also known successors who reflect with some regret on the life they might have had if they had not had to come home as young people and run businesses after their father died.

More than half (54 percent) of this country's family-business owners don't have a written succession plan, according to a 1995 study conducted for Massachusetts Mutual Life Insurance Co. (known as MassMutual — The Blue Chip Company). Other studies suggest that estate planning among family-business owners is inadequate.

On these pages in the March issue, family-business experts Craig E. Aronoff and Thomas E. Kaplan wrote about research showing that early and thorough estate planning carries many benefits—including greater confidence among the owners about the future of their businesses and their families. This month, our cover story offers a variety of estate-planning ideas.

So, no excuses. Get started. Preparing for the possibility that you won't be here won't be easy, and it will take more time than you think you can spare. But it's a darned sight better to do it when things are going well than to put family members in the position of having to make major decisions when they are under duress and when their choices may be more limited.

What Keeps You Awake?

It's 3 o'clock in the morning and you can't get back to sleep. What's worrying you?

Nation's Business wants to know what challenges and issues in your family business keep you awake at night.

For example, do you need to go global but you think you're not ready? Are you concerned about the pace of change? Or do you doubt that your son or daughter has the leadership ability to take over when you retire?

Fax your comments to me at (202) 463-3102. Your remarks will be considered for a possible future article. ■

MARK YOUR CALENDAR

April 3, Boston

"Global Perspectives: International Opportunities for Family Businesses" is a program designed to help you start to build an international plan for your family firm. Call Paul I. Karofsky of the Northeastern University Center for Family Business; (617) 320-8015.

April 8, Toledo, Ohio

"Trials and Tribulations in a Family Business" is a meeting that features Bernard Kliska, a family therapist. Call the University of Toledo Center for Family Business; (419) 530-4058.

April 25, New Orleans

"Succession As Structural Change: Working With Sibling Teams and Cousin Systems" features noted family-business consultant and author Ivan Lansberg. Call the Tulane University Family Business Center; (504) 865-5306.

April 29, Richmond, Va.

"Introduction to Employee Stock Ownership Plans" is a workshop on using ESOPs for business continuity. For additional dates and locations, call Corey Rosen of the National Center for Employee Ownership; (510) 272-9461.

April 29, Fresno, Calif.

"Resolving Conflicts and Reconciling Relationships in Family Business" is a half-day session sponsored by the accounting firm Baker, Peterson & Franklin. Call Rudy Neufeld; (209) 432-2346.

June 1-3, Sedona, Ariz.

The "Sedona Family Business Institute Retreat" covers topics such as communication, leadership development, and estate planning. Call the Human Resources Center, Inc.; (602) 265-0096.

June 8-12, Atlanta

The "Family Business Academy" is a limited-enrollment program that covers topics ranging from family relationships to strategic planning. Call the Kennesaw State University Family Enterprise Center; (770) 423-6045.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

Case Study: Creating A Foundation

Most family members and longtime employees at Collins Manufacturing Co. agree that Lucas Collins, 32, is a dead ringer for his grandfather, Andy, in looks, wit, and charm. Although they are alike in so many ways, there is one major difference: Lucas wants to start an Andrew Collins Foundation to build a lasting tribute to his grandfather and to benefit the community. Andy, however, can't understand why Lucas wants to "just give money away," money that Andy and Jared, Lucas' father, worked so hard to make.

Lucas feels very fortunate that he has been able to do things in his life that his grandfather and father could not afford to do. He attended the best schools, has owned the best cars, and learned early how to live with wealth.

Andy, on the other hand, survived the Depression and many other traumatic events over the years. Jared spent his youth and middle age working long hours in the business. Through their hard work, sacrifice, and devotion to the family, they were able to develop a lucrative business, one that now has more than $100 million in annual revenues.

"Our family is now in a position to give back to the community that helped us grow," Lucas says. "But how can I convince my grandfather that a foundation will have a lasting benefit for our town and our family?"

What's more, he wonders, how do you start a foundation? How much money is required? And who would manage it?

ILLUSTRATION: TROY THOMAS

Response 1

Seek Involvement In The Mission

Lucas should enlist Andy's and Jared's help to determine the mission of the foundation, which then can be structured to accomplish its goals.

Will it be an operating foundation (one that can engage in a broad range of gift giving), a nonoperating foundation (one that can make grants only to qualified charities), or a donor-advised fund at an existing community foundation?

Will the family donate funds to the foundation each year, or will the foundation be endowed? If the latter, will the endowment be over time or all at once?

Also, will Lucas have time to help develop projects for the foundation? Or will the foundation primarily provide grants to organizations that have been granted tax-free status by the Internal Revenue Service? Who will do the due diligence for the grants requested? Lucas needs a lawyer with the right experience and expertise in forming foundations.

Our experience suggests that once a mission benefiting the community is agreed upon, Andy will be proud to have his name on a lofty and worthwhile foundation.

Two publications could help the Collinses:

■ *Family Foundations at Work*, by Kelin E. Gersick, John A. Davis, and Kevin Seymour; available free from Lansberg, Gersick and Associates, 100 Whitney Ave., New Haven, Conn. 06510; (203) 497-8855.

■ *Early Childhood Training, Family Foundations and Philanthropic Activity*, by Roy O. Williams and Newman S. Peery Jr.; this research paper on educating children about philanthropy is available for $10 from The Williams Group, 2351 W. March Lane, Stockton, Calif.; (209) 477-0256.

PHOTO: GLINDA SUE SCOTT

Roy O. Williams, owner and CEO of The Williams Group, a Stockton, Calif., firm that specializes in the transfer of wealth.

Response 2

Put An Emphasis On Communication

Lucas' timing is just right. In August, Congress voted to restore full market-value tax deductibility for gifts of stock to private foundations, at least through May 31. Thus, Lucas can begin to convince his grandfather by pointing out both the estate-planning opportunities and the investment in common values that would result from a decision to proceed with a foundation.

Lucas should first attempt to bring the family together to talk about the benefits to family and community that derive from this kind of collective philanthropy. A facilitator who is expert in family dynamics and knowledgeable about family foundations could help Lucas make a family meeting a rewarding experience.

In that meeting, Lucas would have the opportunity to help his father and grandfather see that his desire to make a contribution to his community is as much a part of his inheritance as the family business is.

Lucas should know that he can get help not only from his attorney but also from the Council on Foundations, which provides "how-to" materials and sponsors an annual conference where Lucas could learn from fellow family-foundation trustees. It also offers a 108-page book, *First Steps in Starting a Foundation*, for $45. Contact the council at 1828 L Street, N.W., Washington, D.C. 20036; (202) 466-6512. Or visit the council's World Wide Web site at *www.cof.org.*

There are more than 35,000 foundations in the U. S. Most have assets of $1 million or less and have learned that "small can be effective." Many of these family foundations are managed by family members themselves. Other families have hired a part-time or full-time staff as assets have grown.

PHOTO: STEVE WOIT

Marty Carter, a family-business consultant and president of the Carter Center for Family Consultation in St. Paul, Minn.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

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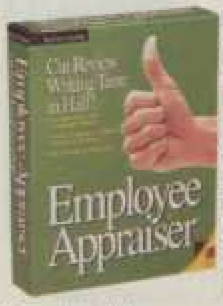

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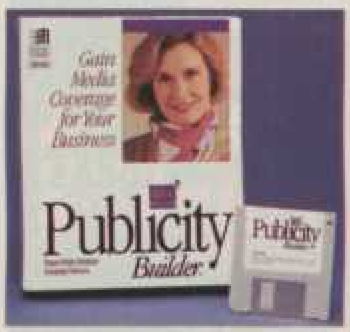

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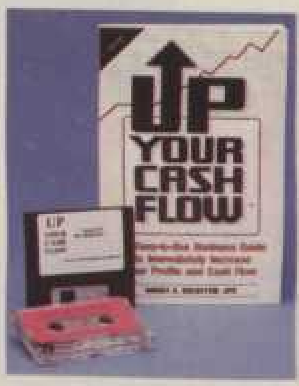

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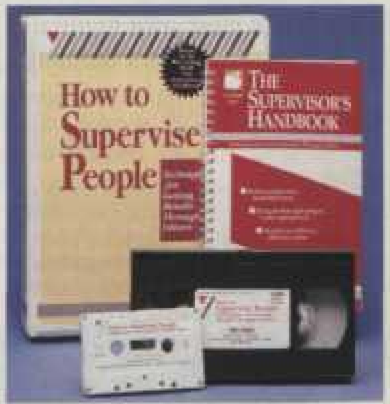

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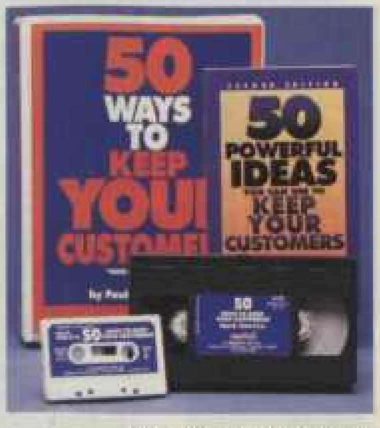

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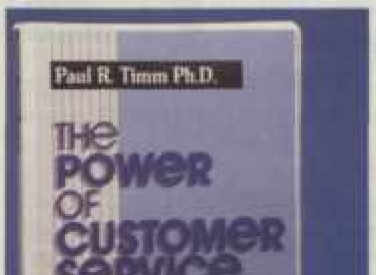

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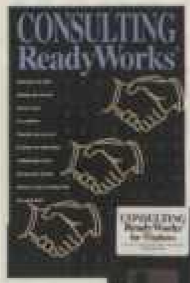

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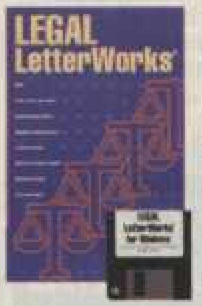

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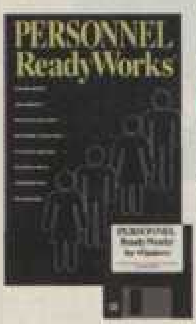

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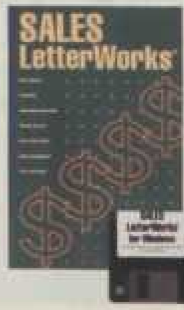

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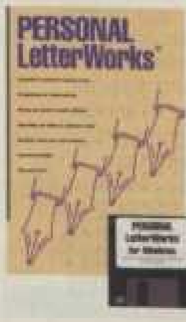

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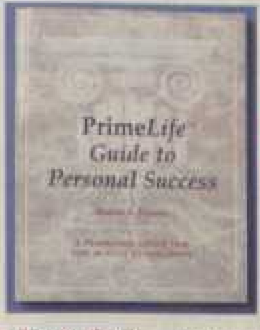

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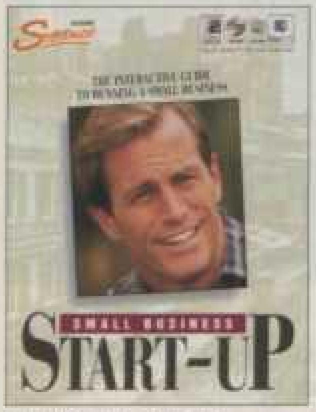

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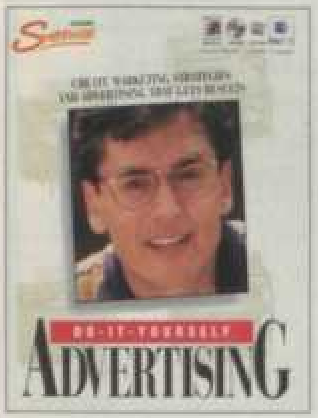

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February Poll Results
Readers' Views

Cut Red Tape!

Reducing federal paperwork and regulatory requirements should top the small-business agenda for the 1997-98 Congress, according to most respondents to a poll of *Nation's Business* readers.

More than four out of five respondents to the Where I Stand poll in the February issue placed a high priority on efforts to stem paperwork requirements of the Internal Revenue Service, the biggest source of federal forms.

A wide majority also placed a high priority on requiring regulators to consider the effects of their rules on small firms before issuing them.

Respondents also gave strong support to the notion of reforming federal estate-tax laws so that family businesses could be passed on intact to succeeding generations.

As they have in previous polls, readers endorsed a proposal to allow self-employed individuals to deduct 100 percent of the cost of their medical insurance, just as big businesses do.

On two other issues—IRS classification of independent contractors and restoration of the home-office tax deduction—there was less unanimity among respondents. Almost equal shares of respondents gave them high and medium priority in the poll.

Here are the complete poll results:

Questions And Answers

Estate-tax reform: Overhaul tax laws so family businesses can be preserved and passed on intact to succeeding generations.

High priority .... 79% Low priority 5%
Medium priority 16

Independent contractors: Clarify further the distinction between employees and workers hired only for specific projects.

High priority .... 36% Low priority 25%
Medium priority 39

Home-office deduction: Restore the tax breaks for people who work out of their residence.

High priority .... 38% Low priority 26%
Medium priority 36

Health-care deduction: Allow the self-employed a 100 percent tax deduction for medical insurance, the same deduction big businesses are allowed.

High priority .... 80% Low priority 4%
Medium priority 16

Federal paperwork: Bring the Internal Revenue Service, the biggest source of federal forms, under the Paperwork Reduction Act.

High priority .... 82% Low priority 4%
Medium priority 14

Regulatory relief: Require regulators to consider specifically the impact of their rules on small businesses.

High priority .... 87% Low priority 2%
Medium priority 11

Where I Stand

On Education

President Clinton wants the federal government, which provides 7 percent of total spending on education at all levels, to increase spending to strengthen public schools—the source of tomorrow's workers. These questions seek your views on current education issues.

Results of this poll will be published in the June issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 **The number of K-12 students in public schools will increase by 2 million over the next decade. Where should funds come from to build new facilities and repair or replace outmoded ones?**

1. Federal government
2. State and local agencies
3. Undecided

2 **American students on average read below levels appropriate for their grades. Could a proposed federal volunteer-tutor program help all children read by themselves by the end of the third grade?**

1. Yes
2. No
3. Undecided

3 **Most schools lack up-to-date technology. Where should funds come from to link every school to the Internet by 2000?**

1. Federal government
2. State and local governments
3. Undecided

4 **Do you support continued efforts to improve learning among poor children through Title I, the long-standing federal program of special instruction during school hours for disadvantaged students?**

1. Yes
2. No
3. Undecided

5 **Efforts are under way to improve student learning and teacher performance. From where should additional resources to support these efforts come?**

1. Federal government
2. State and local governments
3. Undecided

6 **Should there be continued federal funding to support school-to-work programs, or should states and localities or private businesses pick up the costs?**

1. Continued federal funding
2. State and local funding
3. Private-sector funding

Send Your Response Today!

Franchising SPECIAL GUIDE

The Hit Parade For 2000

The concepts that sing will be those in tune with emerging trends.

By Roberta Maynard

Thinking of buying a franchise or investing in a franchised company? Determining which concepts have staying power can be tough. You can bet, though, that they're the ones developed by entrepreneurs who are in tune with shifts in demographics, lifestyles, and workplaces.

Here is a look at trends that are forging the hot products and services of franchising's future.

Got, Got, Got, Got, Got No Time . . .

. . . now that it's such a widespread practice for both spouses in two-parent households to work outside the home.

That theme song of the '90s will be the refrain of the coming decade as affluent consumers increasingly spend more money to buy more time.

Margo Sloan saw the potential of bringing back "old-fashioned" service to save people time. A former business analyst with a heavy travel schedule, Sloan had trouble for years getting her dry-cleaning needs to match up with the local dry cleaner's schedule.

To address what she saw as a common problem, she started Dry Cleaning To-Your-Door in Plant City, Fla. Her company's neon-green vans pick up customers' laundry from their homes and return it clean the following day.

The service has touched a nerve among the time-challenged: Since Sloan sold her first franchise a little over a year ago, she has sold 24 others and is adding two locations a month. She expects that rate to increase sharply; her plan is to have 600 franchises within three years. A typical established franchisor sells 20 franchises a year.

Other types of services that cater to harried Americans are also gaining ground. Examples are in-home pet care, lawn-care services, and on-site windshield and furniture repair.

Stan Bumgarner, president of Critter Care of America, Inc., in Baton Rouge, La., says the increasing revenues of his franchisees show that people are increasingly

Catering to the harried: *Margo Sloan's Florida-based franchise company picks up and delivers customers' dry cleaning.*

"Until a few months ago I was a specialty foods marketing VP with an MBA, a 401K and no problems. Out of the blue came downsizing, and I was on my own. This time, I decided to start my own specialty food franchise. But my bank laughed when I tried to borrow money - and so did every other lending institution. Then my franchisor recommended AT&T Capital Corporation - and everything changed. They appreciated that someone with my experience was a pretty good risk, and set me up with a government guaranteed SBA loan. In fact, I got word that my $500,000 request was 'do-able' in a couple of days, with terms and interest I could live with. It covered everything from my building to working capital to cups & saucers. And AT&T Capital can provide future financing for my business as it grows, for things like equipment leasing and other loans. I even get my own 'team' of permanent contacts, who tell me AT&T Capital has branch offices everywhere for when I expand. Dream on... but I got this far, right? Take my advice. Go your own way, and call 1-800-713-4984 first."

AT&T
Capital Corporation

SBA loans are offered through AT&T Small Business Lending Corporation which is the second largest SBA lender nationwide and has PLP status in most SBA districts. For information, call 1-800-713-4984. The foregoing story is based on the cumulative experiences of several AT&T Capital customers. In California, loans will be made pursuant to a Commercial Finance Lender license issued by California Department of Corporations. In Arizona, loans will be made pursuant to Mortgage Banker License No. BK 14409 (AT&T Small Business Lending Corporation) or BK 17501 (AT&T Commercial Finance Corporation).

FRANCHISING

receptive to using a service to tend to their pets when they go out of town on vacation or for business.

Most of his 15 franchisees experienced 20 percent revenue growth last year; one had a 42 percent increase.

Budget Blinds, a mobile window-covering business based in Costa Mesa, Calif., has sold 140 franchises in its first three years and plans to sell 100 more before the end of 1997.

In especially high demand are house-cleaning services. The U.S. Bureau of Labor Statistics (BLS) lists janitors (including maids and housekeepers) as the occupation with the second-largest projected growth in number of jobs between 1994 and 2005, after cashiers.

Consumers' demand for convenience is apparent in the food industry, too. Shunning their kitchens, people are choosing restaurant food more often, says the National Restaurant Association in Washington, D.C. In particular, carry-out and home delivery are on the rise, especially for households with children.

> "Telltale signs of a growth industry [are] the presence of a lot of mom-and-pop operators in the business and many new ones coming in."
> —Kid To Kid Franchisor Brent Sloan

As a result, companies such as Steak Around, which delivers steaks, salads, and more, are gearing up for expansion. Says Ajay Patel, franchise development manager of the Alexandria, Va., company, "Everybody's going toward delivery and takeout, where there is tremendous growth."

Apparently, prospective franchisees see the potential, too. Without advertising for franchisees, Steak Around receives 15 to 50 calls weekly from restaurant operators and from former executives—not necessarily with food-industry experience—who are interested in a franchise. The company, which has three stores open and several in development, plans to have 200 units by 1999.

In addition, franchisors are stepping up their efforts at co-branding, which cuts down on the number of stops consumers have to make and saves franchisors money on retail space.

Examples are small versions of Jackson Hewitt Tax Service and McDonald's units in Wal-Mart stores, and Popeyes restaurants in grocery stores. One of the latest entries is JC Java's coffee bars, which will be placed in J.C. Penney stores.

Co-branding has even expanded to the automotive sector. Cottman Transmission Systems, Inc., in Fort Washington, Pa., just began offering franchises to franchisees of Maryland-based Tune & Lube International, allowing them to offer both kinds of service in the same location.

And We'll Have Fun, Fun, Fun . . .

. . . now that American adults have 1.9 children of their own with whom to relive their childhoods. Following the comparatively small generation of twentysomethings, the baby boomers' children—the so-called echo boom or boomlet, ages 3 to 17—have been a godsend for the marketplace.

Dozens of new franchises offer everything from the basic necessities, such as child care and education, to extras, such as tumbling, dance, computer training, tennis, basketball camps, nature programs, and music. And baby boomers, eager to fill their children's calendars with developmentally meaningful experiences, are buying.

Cruise trips and other upscale vacations are also on the rise as children go on more trips with their grandparents. Grandparents' affluence and free time are the reasons.

Gotta Keep Searchin', Searchin' . . .

. . . for ways to stay marketable in the new entrepreneurial workplace, where in-demand skills are a must for workers of all ages. That means an unprecedented need for education and training.

Already, community colleges are brimming with adults, according to the U.S. Labor Department. In particular, Generation Xers (adults born after 1964, following the postwar baby boom) are famous for craving continuing education.

Boomers are likely to continue to pursue careers, too. Though they will enjoy greater affluence than previous generations, their looming financial obligations—in particular, the care of aged parents and college tuition for their children—will keep them in the workplace, says Cheryl Russell, editor of *The Boomer Report* newsletter and a former editor of *American Demographics* magazine.

She forecasts that in 10 years, most of the oldest boomers, who will be reaching 60, will resist early retirement and remain in the labor force.

Meanwhile, employers are facing a skills crisis in the workplace. With the

dropping literacy rate, more entry-level workers lack basic skills, yet companies often can't devote the resources to bring them up to speed.

"The responsibility of training is going to fall more and more on individuals," says Drew Allbritten, executive director of the American Association for Adult and Continuing Education in Washington. The demand for adult-education classes reflects that.

"Ten to 15 years ago, [adult education] courses were more recreational. They've gone from recreational to avocational to vocational," says Allbritten. "If the trend is for people to change jobs as much as seven times in their working lives ... that means retraining. People today are saying they want information, not credit or a grade."

Against this backdrop, new franchises specializing in training and education are hoping to plug the skills gap. Computer training for adults is being offered by businesses such as The Fourth R in Kirkland, Wash. And Career Blazers Learning Center in New York City prepares people for the computer-training business.

Executrain Corp., a 13-year-old computer-training company in Atlanta, has seen an increase in interest in its services from both individuals and companies. Multimedia classes in particular are in demand. In its first seven years of franchising, the company opened 70 locations; it opened its next 70 in only three years.

No Particular Place To Go ...

... on Saturday now that the kids are older. Leisure activities, particularly the pursuit of hobbies, are expected to explode as boomers move into their 50s. It may already be happening. In 84 percent of U.S. households last year, at least one person participated in a craft or a hobby; that's up from 64 percent eight years ago, according to the Hobby Industry Association.

People at the National Gardening Association, in Burlington, Vt., are "on the edge of their seats" waiting for the oldest boomers to take up the activity, says research director Bruce Butterfield. Most of the group's 200,000 members are in their late 50s. In 1995, Americans spent $22 billion on do-it-yourself gardening and lawn projects. In 2000, that figure will grow to $30 billion, the association projects.

Travel-related activities are also likely to be in huge demand among these well-educated, affluent empty-nesters, predicts *Boomer Report* editor Russell. She says that travel to cultural locations and health spas will have particular appeal for the young at heart.

PHOTO: GRANDY HAMPTON—BLACK STAR

Helping at home: *Paul and Lori Hogan's franchise firm provides light housekeeping and meal services for senior clients such as Mae Koppers of Omaha, Neb., taking some refreshment from aide Margaret Rost.*

For What It's Worth ...

... sums up the renewed emphasis on economic value today, especially among Generation Xers and the youngest baby boomers, who have seen their buying power drop in recent years and have watched upheavals in the workplace.

About half of all Americans are trying to set aside more money each week in some type of savings plan than they have in the past, says Britt Beemer, CEO of America's Research Group, a consumer-behavior research firm in Charleston, S.C. Generation Xers are saving at a higher rate than their boomer counterparts did at the same age, he says.

The need for value that has emerged in the '90s has manifested itself in several ways, including a dramatic increase in the demand for used furniture, says Beemer. Another hot area for used goods is clothing and other gear for children.

Banking on the trend toward thrift is Grow Biz International, a Minneapolis-based company with five retail concepts,

including used clothing, compact discs, and computers.

The oldest of Grow Biz's concepts, Play It Again Sports, opened in 1987 and now has 700 stores. Its growth was fueled by members of the boomlet generation and young Gen Xers stocking up on soccer shoes and baseball gloves. Ronald G. Olsen, president and CEO of Grow Biz, expects each segment of the company to grow to at least 1,000 stores, driven by the increase in the number of children under 12 and by their parents' search for value.

A new entry in used clothing is Kid to Kid, a franchise based in South Jordan, Utah. Before developing the concept, owners Shauna and Brent Sloan saw the writing on the wall—not so much by tracking demographics as by watching the retail landscape.

"The telltale signs of a growth industry [are] the presence of a lot of mom-and-pop operators in the business and many new ones coming in," says Brent Sloan, who was a lawyer specializing in retail development before becoming a franchisor. "That demonstrated to us a core demand.

"At the same time, we saw a lack of industry standards and lack of a dominant industry leader," signs of a trend in the making, he says. Since 1994, the company has opened 20 units and is adding at least one a month.

Takin' Care of Business, Every Day . . .

. . . means providing products and services to businesses, particularly the growing number of small-office and home-office start-ups. Employment in business services grew at a 7 percent annual rate between 1983 and 1994, according to the Bureau of Labor Statistics. That rate made it the fastest-growing industry group during that period, and robust growth is expected to continue through 2005, according to the agency.

> **Topping the list of concerns for Americans who are heading through their middle years are fitness, diet, and health.**

Triple Check Income Tax Service, Inc., a 56-year-old franchised business in Burbank, Calif., is one of many franchises that saw the trend. The company opened a small-business division in late 1992, and it has grown to 121 locations.

Also enjoying growth is Professional Employee Management (PEM), a company in Sarasota, Fla., that acts as a human-resources department for companies with 15 to 250 employees. PEM began franchising in 1995 and now has eight franchise owners and an annual revenue-growth rate of 34 percent.

Other franchisors are successfully appealing to companies' desires for convenience and value. Furniture Medic, for example, is a network of mobile franchisees who provide on-site repairs for damaged furniture. In under three years as a franchisor, the company, based in Memphis, Tenn., has granted more than 500 franchises.

Homeward Bound . . .

. . . and paying to make it nice. Franchisors selling home-decorating services, custom furniture, and the like may be dismayed to see that the formation of new households is at its lowest level in nearly 20 years.

The thin ranks of Gen Xers accounts for

the 5.3 million households expected to be formed between 1995 and 2000. Household formations have decreased steadily from the 9.6 million formed by, yes, boomers from 1975 to 1980.

But franchisors looking ahead can take heart. The U.S. Census Bureau projects that between 2000 and 2005, the number will reverse its downward trend and edge up to 5.64 million. All of that growth will be in the over-45 segments of the population, perhaps suggesting a trend among empty-nesters to move to vacation and retirement homes. Historically, those with the most money to spend on such things are people 45 to 54 years old.

When I'm 64 . . .

. . . my fellow baby boomers and I may, as widely predicted, have a youthful outlook, but we also will have many of the typical concerns of the aging. Topping the list of concerns as we head through our middle years are fitness, diet, and health.

If you want to see a growth spurt, take a look at GNC, Inc. (General Nutrition Centers), a Pittsburgh-based company with retail stores offering a range of nutritional products. GNC, which began franchising in 1990, now has more than 1,000 franchised stores along with 1,700 company-owned units.

"We're the beneficiary of several trends," says Russ Cooper, senior vice president and general manager. Chief among them, he says, are the aging of the population and media reports about fitness and health.

GNC customers range from senior citizens to young adults; a large number of them are entering their 40s. They are buying everything from diet and skin-care products to garlic and ginseng. GNC's top seller is a multivitamin. Its fastest-growing category is herbal products, which are said to promote general health.

In an enviable situation, the company receives about 1,000 inquiries monthly from prospective franchisees and is selling franchises at the rate of one each business day, Cooper says.

For this and other health-oriented companies, changes in the health-care system have been a plus. "With managed health care, patients are encouraged to seek prevention and to seek alternative health care, and costs are

Top 10 U.S. Growth Industries 1994 To 2005

Employment in the following industries is expected to grow faster than in any others through 2005. Projected rates of increase range from an average of 3.5 percent per year for management and public relations to 5.7 percent for health services.

1. Health services
2. Residential care
3. Computer and data-processing services
4. Individual and miscellaneous social services
5. Business services
6. Personnel services
7. Child day-care services
8. Building services
9. Equipment rental and leasing
10. Management and public relations

SOURCE: OFFICE OF EMPLOYMENT PROJECTIONS, BUREAU OF LABOR STATISTICS, U.S. DEPARTMENT OF LABOR

CHART: ALBERTO PACHECO

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shifting to individuals," says Dairl Johnson, president of Relax The Back Corp. in Austin, Texas. It's a trend that Johnson believes is driving his business's growth.

The retailer of back-related products has as its core customers 35- to 55-year-olds with serious back trouble and pain. But Johnson sees a shift toward younger, healthier individuals.

"At first, back pain was thought to be [limited to] older people," he says. "It turns out that lots of people in their 30s and 40s are educated enough about back pain that they want to prevent these problems."

These people spend long hours commuting, traveling, and sitting at a computer. They tend to buy lower-back or neck supports and often graduate to the company's office chairs, workstations, and beds.

"As baby boomers age, there are real opportunities for the restaurant industry to offer low-fat, nutritional fast food."

—Cheryl Russell, Editor, *The Boomer Report*

Annual sales for Relax The Back, which began franchising in 1989, were $30 million in 1996, up from less than $3 million three years before. The company forecasts 100 percent increases in gross revenues in each of the next three years.

I'll Be Seeing You . . .

. . . for many more years to come. Lengthening life expectancies will doubtless mean a greater need for medical and personal care for the elderly. Eventually, this will apply to the 78 million boomers, but it has already started for the 31 million people in the so-called Swing Generation, now in their 50s and 60s, and the 38 million Americans born before 1933. These groups form the fastest-growing segment of the U.S. population.

There's already an influx of franchises offering medical services, home care for the elderly, and the like. Paul and Lori Hogan, for instance, saw the growing competition in medical services. They also saw a void in the nonmedical side.

Two years ago they began franchising a business to provide light housework, meal preparation, and companionship to seniors in their homes. Last year alone, the Hogans' company, Home Instead Senior Care, based in Omaha, Neb., awarded 46 franchises, bringing its total to 64 in 27 states. The company expects to approximately double that to 130 this year.

Among all occupations through 2005, according to the Bureau of Labor Statistics, the category with the highest rate of growth will be health services, which includes home health aides and personal and home-care aides. Such jobs posted the highest growth rates among occupations from 1983 to 1994.

On the medical side, the BLS projects rapid growth of physical and occupational therapists, as well as growth in medical support staff, specifically dental and medical assistants. Medical-records technicians are also likely to be in demand to handle the burgeoning paperwork requirements of insurers and providers.

Overall, nearly half the 30 occupations with the fastest projected growth rates are concentrated in the health-services sector, which is expected to expand more than twice as fast as the overall economy.

Life Is Just A Bowl of Cherries . . .

. . . only figuratively, of course. Food variety has never been greater. The popularity of ethnic foods, especially, is bound to continue as the minority population, particularly Latinos and Asians, grows.

Accordingly, trend watchers predict a boom in Asian food—the Mexican boom is already well under way—and they note that a marked increase in Mediterranean restaurants this year may suggest a trend.

Whatever the ethnic origin, food is likely to be served in healthier ways to accommodate the demands of an aging population. Failed attempts in the past by fast-food franchises to lighten their menus don't signify a lack of demand for healthier food, says newsletter editor Russell. "As boomers age, there are real opportunities for the restaurant industry to offer low-fat, nutritional fast food." Evidently, some franchisors agree.

Earlier this year, for example, Subway, with 12,000 sandwich stores, began an advertising campaign to promote its light menu, and the company is providing in-store nutritional information about all of its products.

Catch A Wave . . .

. . . and just be sure it's rooted in quantifiable trends. Though franchise success depends on adequate financing, sound management practices, and a strong franchise network, it's market research that points the way to the blockbuster concepts of the future. NB

Small Business Financial Adviser

Bridging income lost to disability; finding angels; figuring a firm's worth; allocating assets in 401(k) plans.

Insuring Your Earning Power

By Abby Livingston

As a small-business owner, you've probably insured your property against fire and theft. You probably also have life insurance to provide for your family when you die. But what have you done to protect another important asset—your ability to earn an income?

Accidents and illnesses that prevent people from going to work do happen—and more often than you may think.

A 35-year-old, for instance, has a 50 percent chance of becoming disabled for three months or longer before he or she turns 65, according to the National Association of Insurance Commissioners. In a partnership of two 35-year-olds, the likelihood that one person will become disabled for three months or longer before age 65 is 75 percent.

Such odds suggest you should think about buying another type of insurance—long-term-disability coverage that would replace a portion of your income if you're too ill or disabled to return to your job.

The insurance industry offers two basic types of long-term-disability (LTD) policies: group and individual coverage. Group LTD coverage, which replaces 40 to 60 percent of the insured person's income, is a relatively inexpensive benefit that can be a significant recruiting tool when it is paid for by a company. Only 23 percent of companies with fewer than 100 employees offer group LTD coverage, according to the U.S. Bureau of Labor Statistics.

The typical LTD group plan costs $180 per employee per year, and the premium usually is paid by the employer, says Jay Menario, vice president of Group LTD Product Development at Unum Life Insurance Company of America, a Portland, Maine, firm that provides disability-insurance products and services.

Individual policies, on the other hand, are costlier but come with better coverage, namely a higher percentage of replacement income (up to 70 percent), portability from job to job, and noncancelable coverage. Individual policies are sold solo or to individuals within a group. The latter are called employer-sponsored individual policies.

Sole proprietors who go shopping for individual policies are likely to get hit with sticker shock. A 45-year-old sole proprietor would have to pay about $3,300 in annual premiums for an individual LTD policy that would provide $6,000 a month in replacement income.

The cost drops considerably when individual policies are sponsored by an employer and at least three people purchase a plan. Individual coverage under an employer-sponsored LTD plan costs about $1,500 annually.

Why the price differential between solo and employer-sponsored individual policies? "In the past five years, insurance companies have been faced with claims on [solo] individual policies that they never expected, like carpal-tunnel and chronic-fatigue syndrome," says Lee Alper, a principal in MA&S, an insurance and estate-planning firm in New York City. "So some companies have increased rates or changed their definitions of disability to limit their liability. Others are phasing out the business."

Given the changing landscape, it's important to understand some basics before you buy any group or individual policy. Generally, the cost of a policy is driven by the definition of disability, the level of income replacement, the length of the waiting period before coverage takes effect, and the length of time that benefits are payable.

With those factors in mind, you should ask your insurance agent questions such as these:

How does the policy define disability? There are two broad definitions of disability, and their differences are significant. "Own-occupation" coverage pays benefits if you can't perform the important duties of your occupation. "Any-occupation" coverage pays benefits only if you can't work in an occupation that is consistent with your education, training, or experience.

Most group policies provide own-occupation coverage for the first 24 months and then convert to any-occupation coverage. This narrows the insurer's risk and provides an incentive for the disabled person to make a transition to another occupation.

Although most existing individual policies are written with own-occupation coverage for the entire benefit period, such coverage is becoming harder to find. One of the largest issuers of individual

disability policies, the Paul Revere Insurance Group in Worcester, Mass., which is merging with Provident Companies Inc. in Chattanooga, Tenn., recently announced that it would no longer issue own-occupation policies.

The reason, says James Johnson, a spokesman for Paul Revere, is that own-occupation policies—originally intended for highly specialized occupations—provide too rich a benefits package. A classic example, according to Johnson, is a thoracic surgeon who can no longer practice thoracic surgery. He collects full disability benefits under his own-occupation individual policy but goes into another field of medicine or even teaches at a salary relatively close to his predisability income.

Insurance for long-term disability "is designed to be a safety net, not a windfall."

—James Johnson, Paul Revere Insurance Group

Own-occupation policies have fostered an overinsured situation," Johnson says, "which resulted in a decreased desire to return to work. That's not what disability is about. It is designed to be a safety net, not a windfall."

Instead, look for a "residual benefits" provision in your individual policy that pays a proportional benefit based on income lost. If residual benefits are not included in your policy, be sure to ask your insurance agent to add the provision as a rider.

How much disability insurance is needed?

Group LTD insurance replaces 40 to 60 percent of predisability income, typically up to $5,000 a month. But that cap works against high-income earners, who may actually get less. That's because the benefit is fully taxable if the premium is paid by the employer, which it usually is. (The employer can deduct the premium as a business expense.)

The result? "An employee earning $150,000 may end up getting only 25 percent income replacement because he or she is in the 36 percent tax bracket," says John Badovinac of Portland, Ore., director of disability sales for M Financial Group, an insurance provider.

Employer-sponsored individual LTD policies provide what is in effect a higher percentage of income replacement primarily because the income is not taxable. That's because the individual—and not the company—pays the premium with after-tax dollars, which exempts benefits from taxation. With an individual policy, the executive earning $150,000 in the earlier example could bring total income replacement up to 56 percent, says Badovinac.

To sponsor individual policies, employers must send a letter to employees offering access to the insurance. To get a group discount, insurers say, at least three people must sign up. Groups of three qualify for discounts of 15 percent. Groups of 10 qualify for fewer restrictions based on existing medical conditions. Groups of 20 qualify for benefits without any medical restrictions and may qualify for discounts as high as 35 percent.

Once a claim is filed, when do benefit payments begin?

Most group LTD plans have a 180-day waiting period for a disability. Individual policies' premiums decline as the waiting period for the start of benefits increases. A policy with a 90-day waiting period costs about 20 percent less than one with a 30-day waiting period, and a policy with a 180-day waiting period is about 30 percent less than one with a 90-day waiting period.

How long does coverage last?

Some group LTD policies make it difficult to maintain coverage beyond two to five years, depending on the extent and type of disability. Nearly all individually issued policies can be tailored to continue benefits until age 65 or 67.

Can the insurer increase the premium or cancel the policy?

A group LTD insurance policy does not guarantee benefits or premium rates. In fact, if a group's medical experience proves

to be poor, the insurer can drop the policy or increase rates. Moreover, a group policy is not portable. That means you can't take the insurance coverage with you if you sell or close the business or change jobs.

But an individual policy is portable and can't be canceled, regardless of one's medical history. The premium for a noncancelable policy will be fixed for the life of

the policy, up to age 65. A guaranteed-renewable policy costs less because premium rates may be increased over time.

What riders do I need?

Unlike group plans, individual policies can be customized to meet the covered person's particular needs. A common "extra" is a cost-of-living rider, which increases the amount of disability benefits to cover inflation once payment of a claim begins. Another rider covers recovery benefits, which eliminates the need for the insured person to go through waiting periods repeatedly should he or she have a recurring condition.

An option that provides for an individual's potential long-term-care needs was introduced recently by Unum Life Insurance (and other insurers may soon follow). Unum's individual disability product, called Disability Plus, offers 100 percent income replacement for severe disabilities. The product converts to an individual long-term-care policy when the person reaches a certain age.

When offered this option, all 17 principals at Baker, Newman & Noyes, a Portland, Maine, accounting firm, purchased it. "If you become incapacitated, chances are that you'd incur significant medical and other expenses that are not covered," says Scott Belanger, the principal in charge of employee benefits. "You'd need more income rather than less. Since this was a relatively inexpensive option—less than 20 percent of the overall cost of the supplemental policy—it's something that everyone decided they really wanted."

Odds are, some of them will need it. ■

Abby Livingston is a free-lance writer in Scarsdale, N.Y.

CAPITAL

Finding Angels On The Internet

How many angels can fit on a computer chip? The Small Business Administration hopes to find out—metaphorically speaking—with ACE-Net.

Officially named the Angel Capital Electronic Network, ACE-Net is the federal government's first major attempt to use the Internet to bring together wealthy private investors—so-called angels—and small businesses in need of capital.

ACE-Net is sponsored by the SBA's Office of Advocacy, with help from the Defense Department, the U.S. Department of Agriculture, and the National Science Foundation. The project was unveiled by President Clinton last fall, and regional ACE-Net service centers around the country have been coming on-line this spring. Once it's fully operational, ACE-Net will be run as a private, nonprofit organization.

The idea behind this on-line initiative, according to Jere Glover, head of the Office of Advocacy, is to create "a nationwide, centralized listing service identifying small, dynamic, growing companies for angel investors to examine." Glover says this service will help fill a "critical gap" for smaller growth companies seeking between $250,000 and $5 million.

The SBA estimates that each year there are about 250,000 angel financiers in the United States with about $20 billion ready to invest in more than 30,000 ventures. By contrast, fewer than 3,000 firms receive venture capital each year, and the average venture-financing deal has grown to about $6.5 million.

How does ACE-Net work? To access the network's Entrepreneur Database, an investor has to obtain a password from the nearest regional ACE-Net operator and also must certify that he or she meets the U.S. Securities and Exchange Commission's definition of "accredited investor" (SEC Rule 501). An accredited investor is one who has at least $1 million in net worth or has posted $200,000 or more in net earnings for each of the past three years.

With the password, an investor can look for small businesses listed on the network, searching by industry, location, amount of capital, or even minority status (if the owner chooses to list that way).

A small business that wants to be listed on ACE-Net must have a registered or qualified securities offering on file with the SEC and the appropriate state securities agency. The company then fills out the standardized Small Corporate Offering Registration (SCOR) form, which is available on ACE-Net.

Investors and small businesses that want to use the service must go through one of the six regional ACE-Net operators. They are in California (northern and southern regions), Georgia, Kansas, Massachusetts, and Texas. ACE-Net's home page on the Internet (*www.ace-net.unh.edu*) is operated by the University of New Hampshire.

Subscription forms and more detailed information are available at the Internet site. You can also reach that site through the SBA's home page: *www.sba.gov*. Or call the SBA's Office of Advocacy in Washington, D.C., at (202) 205-6532.

—Stephen Blakely

VALUATION

Figuring Your Company's Worth

Ever wondered what your business is worth? There are good reasons why you should know and some inexpensive ways to find out.

"The No. 1 reason why owners request a valuation is the contemplated sale or purchase of a business," says Jim Hines, president of Inexco Business Intermediaries, a business brokerage in Grand Rapids, Mich. Other major reasons are succession planning, estate and tax planning, and marital problems. "Divorce settlement is a popular reason, too," Hines notes.

Whatever the reason, there are various ways to measure your company's value. The most common is fair market value, generally defined as "the price at which an asset or service passes from a willing seller to a willing buyer" on the open market. And for the typical owner, arriving at the fair market value of the business is a painful journey.

"The owner of the business—especially if he built it up himself—*always, always, always* thinks it's worth more than it is," says Todd Parker, a business-valuation specialist with Cherry, Bekaert & Holland, a regional accounting and consulting firm in Richmond, Va.

To get a general idea of your company's worth, make sure you have good financial records (income-and-expenses, profit-and-loss) for the past few years; valuators can quickly "recast" the financials to provide a ballpark estimate.

The estimate is determined by an asset-based approach (adjusting the company's assets and liabilities to their appraised values) or an income-based approach (looking at earnings, cash flow, and growth rates) to come up with a general estimate of value.

If the numbers are in order, Parker can do a "quickie" estimate using these approaches for about $500, which is on the low end of fees for such services.

Hines, whose "summary valuations" start at about $1,200, adds that "there are a lot of rules of thumb" that can be used to make rough estimates. A popular "quick and dirty" method is the "multiplier factor"—multiplying a company's annual gross sales or pretax profits times a number established for the firm's industry. For instance, the typical small manufacturing operation is likely to be worth 40 percent of gross sales; a motel would be calculated at roughly 4.5 times annual revenues.

Parker and Hines advise that a complete appraisal is essential if you're facing tax or legal challenges. But expect to wait several weeks for the work to be completed and to pay $5,000 to $10,000 or more.

Where can you find help? Call a professional group to find a local business appraiser. Such groups include the American Society of Appraisers in Herndon, Va. (1-800-272-8258); the Institute of Business Appraisers in Boynton Beach, Fla. (561-732-3202); and the National Association of Certified Valuation Analysts in Salt Lake City (1-800-677-2009).

—Stephen Blakely

INVESTING

Choosing The Right Mix Of 401(k) Assets

By Randy Myers

Want to help your employees make the most of your company's 401(k) retirement-savings plan? Then try to ensure that they make smart decisions when they divide their investments among stocks, bonds, and cash equivalents such as money-market funds.

Numerous studies have shown that making the right asset-allocation decisions among these broad categories is far more important than deciding which stock fund or bond fund you choose. In fact, the studies indicate that asset allocation determines approximately 94 percent of investment results.

This is the first in a three-part series on 401(k) plans.

Why? Because different classes of assets historically have produced widely different investment returns. (See the accompanying chart.)

Ensuring that all plan participants make good asset-allocation decisions and hence enjoy good investment returns is almost as important for your company as it is for participating employees. At the least, poor returns could make your plan less valuable in attracting and retaining employees. At worst, it could prompt a lawsuit if your employees conclude that your firm was responsible for their poor investment performance, although the law remains murky on the topic of employer responsibility.

"You could also force employees to continue working longer than they—or you—might want, if they can't afford to retire," observes John Yeager, a managing partner with Loomis Sayles & Co., a Boston-based mutual-fund firm.

The logic behind the asset-allocation studies is obvious if you compare the process to deciding how to travel across the country. How fast you reach your destination won't depend so much on which airline you choose or which car you drive, but on which of these two types of transportation you choose.

Investors looking for the biggest gains over the longest periods will want to emphasize stocks; they're the raciest asset class and historically produce the greatest earnings—although they can encounter turbulence over short periods. Think of them as airplanes.

Investors willing to accept more modest gains in return for avoiding such turbulence will want to emphasize bonds over stocks. Over time, bonds grow at a slower but steadier pace. Think of them as cars.

Perhaps you're an investor who doesn't feel safe in a plane or a car—or maybe your investment horizon isn't far away. In that case, you'll want to emphasize money-market funds or other types of cash equivalents in your portfolio. These asset classes don't earn much—barely more than inflation, historically—but neither do they lose money over short periods. Think of them as bicycles.

Why Asset Allocation Is So Important

Various types and combinations of assets have differed markedly in performance over the past 20 years. The figures below show the returns for two classes of stocks, three classes of bonds, 30-day U.S. Treasury bills, and two hypothetical diversified portfolios.

All stocks and bonds are issued by U.S. companies or the federal government, and returns include reinvestment of dividends or coupons.

Inflation during the period averaged 5.2 percent per year.

Asset Class	Average Annual Return After Compounding, 1977 To 1996
Small-Company Stocks	17.8%
Large-Company Stocks (Standard & Poor's 500-stock index)	14.6%
Long-Term Corporate Bonds (20-year maturity)	9.7%
Long-Term Government Bonds (20-year maturity)	9.5%
Intermediate-Term Government Bonds (five-year maturity)	9.1%
30-Day U.S. Treasury Bills	7.3%
Portfolio A (25% Standard & Poor's 500 stocks, 25% small-company stocks, 20% long-term government bonds, 20% intermediate-term government bonds, 10% 30-day Treasury bills)	**13.0%**
Portfolio B (60% Standard & Poor's 500 stocks, 40% long-term government bonds)	**12.8%**

SOURCE: IBBOTSON ASSOCIATES, www.ibbotson.com

In practice, you'll probably want to mix two or more asset classes in your 401(k) account rather than exclude certain ones.

Sure, very young investors should probably keep cash out of their retirement fund completely. But as the chart illustrates, a diversified portfolio that includes all of the major asset classes is a prudent choice for most investors because you can usually count on one asset class to perform well when another is weak.

Within that mixed portfolio, though, the younger you are, the greater the percentage of your money you will want to keep in stock. (One rule of thumb—although it shouldn't be used as a final determinant—is to subtract your age from 100 and keep that percentage of your assets in stocks.)

Once you've established your asset-allocation strategy, stick with it by rebalancing your portfolio at least once a year to keep the right percentage amount invested in each class of assets.

Doing so automatically forces you into a buy-low, sell-high investment discipline. If your stock fund goes up sharply in value in any one year, for example, and your bond fund doesn't, you'll need to sell some of the high-priced stock fund at year-end and use the proceeds to buy more of your lower-priced bond fund to keep both in line with your asset-allocation targets.

Although your allocation strategy should change as you get closer to retirement, don't revisit it every month or quarter. "The investment-allocation decision is probably, at minimum, a five-year decision," says Michael Dickerman, a principal with the New York City-based consulting firm Towers Perrin and head of retirement-planning education.

Dickerman reminds investors to consider asset-allocation decisions within the context of their entire investment portfolio, not just what's in their 401(k) plan. Someone who has much of their wealth tied up in their employer's stock, for example, may want a higher portion of bonds in their 401(k) plan than a colleague of the same age who owns no company stock.

With the right asset-allocation decisions, participants in your firm's 401(k) plan should be able to earn respectable investment returns over time. That's good for them and for your company. NB

Randy Myers, formerly a writer and editor for Dow Jones & Company, Inc., is a financial writer in Dover, Pa.

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Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

FINANCE

Putting A Price Tag On A Family Firm

I am interested in selling my family business—a cabinetmaking firm worth $3 million to $6 million. Is there a list of companies, such as mergers-and-acquisitions firms, that could help evaluate my business and assist in the sale?
J.S., Miami

ILLUSTRATIONS: MARTHA VAUGHAN

There are two organizations whose members specialize in helping others buy and sell businesses. One is the International Business Brokers Association (IBBA) in Reston, Va.; (703) 437-4377. Its more than 600 individual members worldwide deal with very small to medium-sized businesses in the United States, Canada, Mexico, and Europe.

The other group is International Merger and Acquisition Professionals (IMAP) in Atlanta; (770) 319-7797. It represents about 40 mergers-and-acquisitions consulting firms in the United States and Canada that generally deal with businesses worth between $2 million and $50 million.

Either group can put you in touch with a local member. You can get basic information about their services on the Internet; IBBA is at *www.bizmart.com/ibba*, and IMAP is at *www.imap.com*.

Cordell Berge, president of Acquisitions Northwest Inc. in Portland, Ore., and an IMAP officer, says the first stage in selling a business is to line up the necessary professional help, such as a lawyer, an accountant, an appraiser, and a financial intermediary such as a business broker (usually for smaller firms) or a mergers-and-acquisitions consulting firm (for bigger companies).

The next step is to provide complete financial details of your company for the past three to five years and a market analysis of your operation so that its fair market value can be determined.

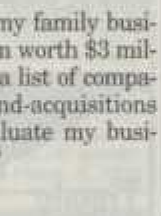
Since the valuation process is both complex and critically important, some experts recommend that you use a professional who is a member of the American Society of Appraisers and also knows your business sector. Call the ASA in Herndon, Va., at 1-800-272-8258 for referrals of local members. (See also "Figuring Your Company's Worth," Page 78.)

Negotiation and execution of the sale can be complex, since deals for privately held or family-owned businesses often involve important "nonprice issues" such as protecting employees' jobs. Working out a payment structure can be complicated by timing, taxes, stock, or other financial matters. Don't expect a bundle of cash upfront.

Brokers generally charge a straight commission of 5 to 12 percent of the purchase price for a small-business sale, Berge says. Larger businesses usually pay a retainer fee plus a sliding-scale commission starting at 5 or 6 percent of the first $1 million and decreasing by a percentage point for each additional $1 million. ■

GETTING STARTED

Entrepreneurship In The Bud



I have been working in sales but would like to start a flower shop in my hometown. The market looks good: The town has a funeral parlor, four churches, and about 3,500 residents; the one local flower shop recently went out of business. I know roses are red and violets are blue, but how to start up, I haven't a clue.
J.N., Grafton, Ohio

It takes more than flower power to succeed in the highly competitive, $15 billion floral industry. "It's a very difficult business," says Jennifer Sparks of the Society of American Florists (SAF) in Alexandria, Va. "There's a lot of turnover."

The SAF represents 9,000 florists nationwide, has basic information for students interested in the industry, and runs professional seminars during the organization's annual convention; call (703) 836-8700.

You can look beyond the bloom and get to the roots of the business through the two major floral wire services; they offer training, information, videotapes, and professional help to their members. Contact American Floral Services (AFS) in Oklahoma City (1-800-456-7890) or Florists' Transworld Delivery (FTD) in Southfield, Mich. (1-800-788-9000).

Paul Goodman, president of *Floral Finance*, an AFS newsletter, says, "The barriers to entry in the retail floral business are very low—you can open a shop with basic equipment for about $30,000."

He recommends, however, that anyone who wants to get into the business should first work for a florist to gain experience or should get training at a floral-design center.

Goodman says floral retailing "is one of the most difficult retail businesses there is" because wholesale costs are hard to control, the product is highly perishable, rapid turnover of stock and tight control of inventory "shrinkage" are essential, and sales volume is crucial.

"The average retail floral shop does about $250,000 in gross business a year," Goodman says. "You can't expect to make much money until you get up to that level." ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number.

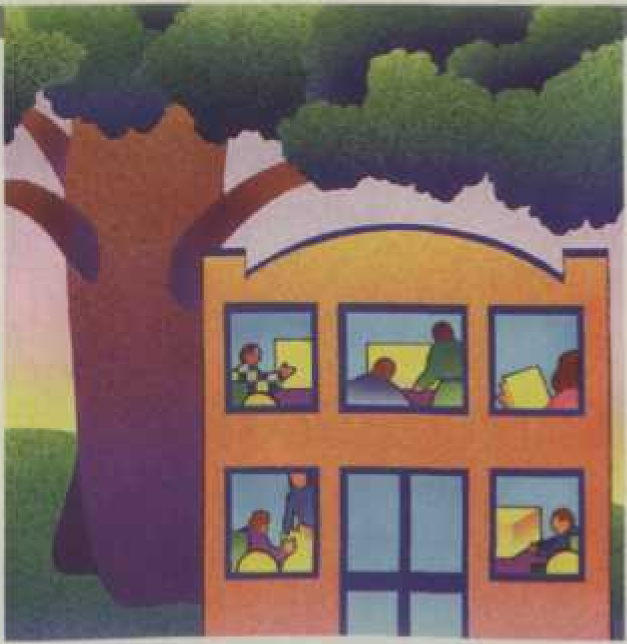
Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

EMPLOYMENT

A Sheltered Workshop's Search For Contracts

Our nonprofit rehabilitation and recycling center provides services to adults with disabilities. We are looking for firms for which we could do subcontracted mailing work such as assembling, sorting, and collating printed materials or labeling and bulk mailing.

Are there any businesses that specialize in assisting industries that need to subcontract some of their production?
P.L., Emmetsburg, Iowa



"Sheltered workshops" provide meaningful employment for the disabled as well as cost-effective help to businesses that are looking for ways to outsource certain basic services. Also known as "facility-based employment," these workshops generally are community-based or are nationwide organizations that depend on state and local funds and their own earned income. Federal support sometimes is provided.

One trade organization for sheltered workshops and other groups is the Iowa Association of Rehabilitation and Residential Facilities (IARRA) in Des Moines; (515) 270-9495. It provides education and training for workshop staff members and managers and can help individual workshops recruit business clients. Linda Hinton, executive director of IARRA, notes that most sheltered workshops do their own recruitment of local businesses because "that's the way any business gets work."

Interested businesses in other states can find local sheltered workshops through local or county social-service agencies or through similar statewide trade associations.

On the national level, the National Rehabilitation Association in Alexandria, Va., (703-836-0850) represents about 200 sheltered workshops and 500 medical and other organizations that help place disabled people in the work force.

Organizations that deal with federally funded projects for employing the disabled include NISH (formerly known as National Industries for the Severely Handicapped) in Vienna, Va., (703-560-6800) and the International Association of Business, Industry and Rehabilitation in Washington, D.C., which runs the "Projects With Industry" program (202-543-6353).

Do not expect much federal help, however; experts point out that budget cuts and the local focus of sheltered workshops mean that little government aid is available. NB

Editorial

Flexibility On Overtime Rules Is Overdue

The federal law requiring cash payment for overtime work was enacted nearly 60 years ago. Under the prevailing patterns of the time, the male breadwinner would focus on the added income while his home-based wife dealt with family concerns.

That pattern of family life, of course, is long outdated. Working wives and single parents make up a substantial part of the work force.

Today's workers, male and female, are repeatedly challenged to find enough time to deal with their children's school, sports, and other activities as well as with the care of aging parents, with volunteer work, and with matters of personal concern generally.

The key to finding that time is increased flexibility in their working hours.

Despite the changing social environment, the Fair Labor Standards Act of 1938 remains unchanged in these closing years of the 20th century. The statute, which generally applies to workers paid by the hour, mandates that employees who work more than 40 hours in the same week be paid for the overtime hours at 150 percent of their usual hourly rate.

PHOTO: KAREL SKELLEY—THE STOCK MARKET

Finding time *to be with their children is a high priority for working parents.*

An hourly worker might be willing to put in two extra hours on Thursday night in exchange for leaving three hours early to attend a school conference or a baseball game the following Tuesday afternoon, but current law does not allow employers and employees to make such arrangements. Under the law as it now stands, the worker can use vacation time or, if none is available, take the time off without pay.

Because of those limited options, the idea of allowing hourly workers to take time off as compensation—so-called comp time—for overtime worked has strong public support. A poll commissioned by the Employment Policy Foundation, a business-supported research and education group in Washington, D.C., shows that 75 percent of Americans favor allowing workers to choose between comp time and cash payments; 57 percent of those who work overtime indicated they would sometimes choose time over cash, and 33 percent said they would choose time more often than cash. A study by the U.S. Department of Labor in 1995 showed that the top concern of working women was flexible job scheduling.

Legislation that would help workers in their effort to juggle job and personal considerations has been introduced in the U.S. Senate as the Family Friendly Workplace Act (S. 4) and in the House of Representatives as the Working Families Flexibility Act (H.R. 1).

The basic provision of each bill would allow employers and hourly workers to agree on provision of comp time at the same rate of cash reimbursement—an hour and a half for every hour worked beyond 40 hours in the same week.

In the absence of such an agreement, the employer would have to pay cash overtime. The bill contains many other worker protections, including provisions for cashing out comp time, a worker's right to withdraw from an agreement at any time, and penalties for employers who attempt to coerce employees to sign such agreements.

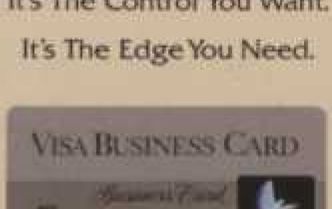
The legislation would extend to the private-sector work force the same option that federal and some other government employees have had for many years.

Giving workers a comp-time alternative would ease the antiquated view of the Fair Labor Standards Act toward family priorities and end the current discrimination against the private sector on this critical issue. NB

If Your Business Card Isn't Everywhere You Want To Be, Maybe You Should Send It Back To The Drawing Board.

You don't have to be the hottest architects in the Big Easy to recognize the functional design of the Visa® Business card. Of course, Gerry and Ray might beg to differ. Ray relies on it because it's accepted everywhere he needs to do business (13 million places worldwide, millions more than American Express). So he never comes up short entertaining clients out of town or down the street at his favorite jazz club. Gerry likes Visa Business because he can use it to get cash at ATMs just about everywhere (over 300,000 locations), so he can make a Louisiana purchase anywhere he needs to. For the control to run your business the way you want to, get the Visa Business card. Call 1-800-VISA 311 ext. 90, or visit our Small Business Suite at www.visa.com/smallbiz/

It's The Control You Want.
It's The Edge You Need.



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– David Fluker
Owner, Fluker Farms

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HP DeskJet *Professional Series*

The Business Advocate

SUPPLEMENT TO Nation's Business APRIL 1997

Published By
U.S. Chamber of Commerce

Chamber Looks Ahead

Right, at the U.S. Chamber's 1997 annual meeting, 1997-98 U.S. Chamber Chairman Michael S. Starnes, left, asks a question of White House Chief of Staff Erskine Bowles. Below, Irene and Wallace Bronner, owners of Bronner's CHRISTmas Wonderland of Frankenmuth, Mich., accept their Blue Chip Enterprise Initiative award from John B. Davies, right, executive vice president of MassMutual—The Blue Chip Company, during the U.S. Chamber's 1997 annual meeting.

"We have before us an unprecedented opportunity to achieve many long-standing goals," Bruce Josten, senior vice president for membership policy at the U.S. Chamber of Commerce, told the organization's members at the business federation's 1997 annual meeting.

The majority in Congress, Josten pointed out, remains in the hands of pro-business lawmakers who are committed to finishing the work begun in 1995 of making the federal government less costly and less intrusive in the marketplace and in the lives of Americans.

Continued On Page 3A

Lesher To Leave Chamber Post

The man who has run the day-to-day operations of the U.S. Chamber of Commerce for the past 22 years, Richard L. Lesher, will leave his job as president later this year.

See Story On Page 2A

■ Transition

Lesher Announces He'll Leave This Year

Richard L. Lesher, president of the U.S. Chamber of Commerce since 1975, will leave that position at an unspecified date later this year.

Lesher, 63, announced his plans at the Feb. 24 meeting of the Chamber's board of directors. He said he will step down to pursue other activities, including serving on corporate boards, writing, and performing volunteer service.

Michael S. Starnes, who became the 1997-98 chairman of the Chamber's board at the February meeting, said: "Dick Lesher has provided outstanding leadership to the Chamber and the business community for more than 20 years. He is a good friend to all of us, and we will miss him."

U.S. Chamber President Richard L. Lesher, left, talks with Chilean President Eduardo Frei. An interpreter, right, translates. Frei addressed business leaders Feb. 27 at a meeting of the Chamber's International Forum.

Starnes is chairman, president, and CEO of M.S. Carriers, Inc., a trucking company headquartered in Memphis, Tenn. He said William Marcil, a director who was the 1994-95 chairman of the board, will lead the search committee that has engaged Korn/Ferry International, an executive search firm, to find a new president for the organization.

As Chamber president, Lesher has directed the day-to-day activities of the world's largest broad-based business organization. The Chamber has an underlying membership of more than 3 million firms and organizations of every size and in every sector and region.

During Lesher's tenure, the federation has established itself as a powerful voice for American businesses and organizations around the world. Among Lesher's innovations are:

■ The most advanced and effective communications system of any business organization. The system includes a television studio that produces the syndicated television programs "First Business," produced daily, and "It's Your Business," produced weekly; a magazine for members, *The Business Advocate*, to accompany the Chamber's 85-year-old flagship magazine, *Nation's Business*; training seminars via satellite hookup; and televised town-hall meetings on public-policy issues of urgent concern to business.

■ The National Chamber Litigation Center, which represents business interests before the U.S. Supreme Court and other courts.

■ The Center for Workforce Preparation, whose goal is to help ensure that students are prepared for employment.

■ The Grassroots Action Information Network, a legislative-action network of businesses, state and local chambers, and associations.

■ The Center for International Private Enterprise, which helps foster entrepreneurship and free-market economics in emerging democracies around the world.

Lesher is a nationally known commentator and author on business subjects. He writes a weekly syndicated column, "The Voice of Business," which is carried by hundreds of newspapers nationwide.

In 1996, his book *Meltdown on Main Street*, published by Dutton, detailed the critical role that U.S. entrepreneurs played in the 1994 elections, which resulted in a more pro-business Congress.

Lesher also has served as a panelist on each of the more than 900 "It's Your Business" television shows since the public-issues debate forum was established by the Chamber in 1979. The program is syndicated on 130 stations nationwide.

Before assuming the Chamber's top operating role, Lesher was president of the National Center for Resource Recovery, which developed technology for turning municipal solid waste into energy and other vital resources. He previously was on the management team of the National Aeronautics and Space Administration during the period leading to the first manned moon landing.

Lesher holds a doctorate in business administration from Indiana University, a master's degree in business administration from Pennsylvania State University, and a bachelor's degree in business administration from the University of Pittsburgh.

■ Internet

Home Page Lists Services

The address for the U.S. Chamber of Commerce's new site on the Internet's World Wide Web is *www.uschamber.org*.

The Chamber home page includes information on Chamber activities, the organization's position on legislative issues, and details about the business federation's programs and services.

Chamber members can visit a "Members Only" section using their Chamber identification number to obtain more-detailed information about the organization's activities. (If you don't know your Chamber ID number, call the 800 number on the members-only page.)

■ Annual Meeting

Chamber Sets Sights On Legislative Goals

Continued from Page 1A

The Chamber's top legislative priorities, detailed in its 1997-98 National Business Agenda, are balancing the federal budget, updating the federal regulatory process, and reforming the product-liability system. The agenda was established through a survey of Chamber members, with input from the organization's policy committees and its board of directors.

The Chamber's 1997-98 chairman, Michael S. Starnes, opened the Feb. 24 annual meeting, which was broadcast by satellite from the Chamber's Washington headquarters to more than 1,000 downlink sites nationwide.

The major theme of his chairmanship, Starnes said, "will be to level the playing field—to forge a climate more hospitable to small business." Starnes is chairman, president, and CEO of M.S. Carriers, Inc., a Memphis, Tenn., trucking firm.

A highlight of the Chamber's 1997 annual meeting was a panel discussion of legislative issues among, from left, Rep. Sue W. Kelly, R-N.Y.; Sen. Don Nickles, R-Okla.; panel moderator Meryl Comer; Sen. Herbert H. Kohl, D-Wis.; and Rep. Charles W. Stenholm, D-Texas.

White House Chief of Staff Erskine Bowles, the keynote speaker at the meeting, said the Clinton administration's first goal is to balance the budget.

A major highlight of the meeting was the recognition of the four 1997 national designees of the Blue Chip Enterprise Initiative. The annual program recognizes small firms that have overcome adversity and emerged stronger. It is sponsored by Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company, the Chamber, *Nation's Business* magazine, and "First Business," the Chamber's weekday television program.

The 1997 honorees are Accutec, Inc. of Wallington, N.J.; Bronner's CHRISTmas Wonderland of Frankenmuth, Mich.; Computer Rescue Squad of Cape Coral, Fla.; and Howard Fabrication, Inc. of Industry, Calif. Profiles of the firms appear in the April issue of *Nation's Business*.

■ Board Meeting

Hong Kong Policy Set; New Officers Take Helm

The board of directors of the U.S. Chamber of Commerce, meeting Feb. 24, approved new policy on the transfer of power in Hong Kong to China from Great Britain.

"It is of vital importance to the U.S. business community that Hong Kong's position as a center for international business and finance be maintained" after the island's governance is turned over to China on July 1, 1997, said a statement by the board.

In other action, the Chamber board reaffirmed its policy supporting the use of revenues in the federal transportation trust funds for their stated purpose. If Congress is reluctant to spend the funds, the board said, the Chamber should support measures such as taking the trust funds off budget to ensure that the dedicated revenues are spent on transportation projects.

Senate Minority Leader Thomas A. Daschle, D-S.D., and Senate Majority Leader Trent Lott, R-Miss., discussed their respective parties' Senate agendas with the Chamber board.

Lott had high praise for the Chamber: "Quite often, you've stood shoulder to shoulder with [Congress to support legislation] to improve the economy and create jobs. The Chamber of Commerce is one of the most important organizations in America ... [and it's] the best organization for advancing a legislative agenda that's good for America."

Michael S. Starnes, U.S. Chamber Chairman for 1997-98

William G. Little, U.S. Chamber Vice Chairman for 1997-98

Also at the board meeting, Michael S. Starnes, chairman, president, and CEO of M.S. Carriers, Inc. of Memphis, Tenn., became chairman of the Chamber for 1997-98.

Starnes, whose trucking firm provides service throughout the United States, Canada, and Mexico, succeeded Edwin A. Lupberger, chairman and president of Entergy Corp. of New Orleans.

Named as the Chamber's vice chairman for 1997-98 at the meeting was William G. Little, president and CEO of Quam-Nichols Co., Inc. of Chicago. Little's firm manufactures audio speakers.

THE SPIRIT O

The U.S. Chamber of Commerce presented its annual Spirit of Enterprise Award to 51 senators and 224 representatives at a February reception on Capitol Hill. The lawmakers,

U.S. Chamber President Richard L. Lesher, left, congratulates Senate Finance Committee Chairman William V. Roth Jr., R-Del., for earning the business federation's Spirit of Enterprise Award for 1996.

Above, Rep. Sue Myrick, R-N.C., talks with Amway Corp.'s John Gartland, a member of the Chamber's public-affairs committee.

Above, Rep. Ken Calvert, R-Calif., discusses issues with Sally Jefferson, manager of regulatory policy for the Chamber.

Above, House Majority Leader Richard K. Armey, R-Texas, center, talks with Chamber Vice President Lonnie Taylor, left, and Senior Vice President Bruce Josten. At right, Rep. Michael "Mac" Collins, R-Ga., right, discusses trade issues with the Chamber's Ed Kaleta, center, and John Howard.

At left, Rep. Thomas J. Bliley Jr., R-Va., right, and Bruce Josten, the Chamber's senior vice president for membership policy, discuss issues. Bliley is chairman of the House Commerce Committee.

Among the award winners were, above, House Appropriations Committee Chairman Bob Livingston, R-La., left, and Senate Commerce, Science and Transportation Committee Chairman Ted Stevens, R-Alaska, right, shown with Chamber Senior Vice President Bruce Josten. Above right, Sen. Kay Bailey Hutchison, R-Texas, talks with Chevron Corp.'s Bill May, a member of the Chamber's public-affairs committee.

F ENTERPRISE

including those featured here, were honored for their strong support of business during 1996. (For the complete list of winners, see Pages 6A and 7A.)

Rep. George P. Radanovich, R-Calif., center, accepts a Spirit of Enterprise Award from William G. Little, left, the U.S. Chamber's 1997-98 vice chairman of the board, and Chamber President Richard L. Lesher.

Rep. Ralph Hall, D-Texas, above, was among the Spirit of Enterprise honorees.

Above, Sen. Larry E. Craig, R-Idaho, left, accepts a Spirit of Enterprise Award from Chamber Vice President Lonnie Taylor. At left, Rep. Barbara Cubin, R-Wyo., accepts her award from Chamber President Richard L. Lesher.

At right, Rep. Floyd Spence, R-S.C., right, talks with Chamber Vice President Jeffrey Joseph, center, and Senior Vice President Carl Grant.

Below, Sen. Fred Thompson, R-Tenn., right, is congratulated by Chamber Vice President Lonnie Taylor, left, and Senior Vice President Bruce Josten.

At left, Richard McDonnell, left, the Chamber's manager of grass-roots legislative affairs, shows a Spirit of Enterprise Award to honoree Rep. Joel Hefley, R-Colo.

Rep. Jim Bunning, R-Ky., was honored for his support of business.

At right, Rep. Jerry Weller, R-Ill., center, talks with Doug Loon, the Chamber's congressional-affairs director, and Chamber representative Tina Tabb.

THE SPIRIT OF ENTERPRISE

Here are the 51 U.S. senators and 224 representatives who received the U.S. Chamber of Commerce Spirit of Enterprise Award for votes cast in 1996.

The award is given to lawmakers who supported the Chamber's position on legislation at least 70 percent of the time last year. Each member's vote rating is based on an analysis of votes on selected business issues. The results of the latest analysis were reported in the March issue of *The Business Advocate.*

Representatives are listed by district within their respective states.

U.S. Senate

ALABAMA
Richard C. Shelby (R) 77

ALASKA
Frank H. Murkowski (R) 92
Ted Stevens (R) 85

ARIZONA
Jon L. Kyl (R) 100
John McCain (R) 100

COLORADO
Hank Brown (R)* 100
Ben Nighthorse Campbell (R) 82

DELAWARE
William V. Roth Jr. (R) 85

FLORIDA
Connie Mack (R) 100

GEORGIA
Paul Coverdell (R) 92

IDAHO
Larry E. Craig (R) 100
Dirk Kempthorne (R) 100

INDIANA
Dan Coats (R) 100
Richard G. Lugar (R) 85

IOWA
Charles E. Grassley (R) 92

KANSAS
Robert Dole (R)* 75
Sheila Frahm (R)* 100
Nancy Kassebaum (R)* 100

KENTUCKY
Mitch McConnell (R) 85

MAINE
William S. Cohen (R)* 75
Olympia J. Snowe (R) 77

MICHIGAN
Spencer Abraham (R) 92

MINNESOTA
Rod Grams (R) 92

MISSISSIPPI
Thad Cochran (R) 91
Trent Lott (R) 85

MISSOURI
John Ashcroft (R) 100
Christopher S. Bond (R) 100

MONTANA
Conrad Burns (R) 85

NEW HAMPSHIRE
Judd Gregg (R) 92
Robert C. Smith (R) 92

NEW MEXICO
Pete V. Domenici (R) 83

NORTH CAROLINA
Lauch Faircloth (R) 92
Jesse Helms (R) 85

OHIO
Mike DeWine (R) 85

OKLAHOMA
James Inhofe (R) 100
Don Nickles (R) 100

PENNSYLVANIA
Rick Santorum (R) 77
Arlen Specter (R) 77

RHODE ISLAND
John H. Chafee (R) 92

SOUTH CAROLINA
Strom Thurmond (R) 92

SOUTH DAKOTA
Larry Pressler (R)* 92

TENNESSEE
Bill Frist (R) 100
Fred Thompson (R) 100

TEXAS
Phil Gramm (R) 100
Kay Bailey Hutchison (R) 92

UTAH
Robert Bennett (R) 92
Orrin G. Hatch (R) 92

VIRGINIA
John W. Warner (R) 85

WASHINGTON
Slade Gorton (R) 100

WYOMING
Alan K. Simpson (R)* 85
Craig Thomas (R) 92

U.S. House Of Representatives

ALABAMA
1 Sonny Callahan (R) 100
2 Terry Everett (R) 94
6 Spencer Bachus (R) 94

ALASKA
Don Young (R) 81

ARIZONA
1 Matt Salmon (R) 88
3 Bob Stump (R) 94
4 John Shadegg (R) 88
5 Jim Kolbe (R) 94
6 J.D. Hayworth (R) 94

ARKANSAS
3 Tim Hutchinson (R)** 94
4 Jay Dickey (R) 100

CALIFORNIA
1 Frank Riggs (R) 81
2 Wally Herger (R) 100
4 John Doolittle (R) 94
10 Bill Baker (R)* 94
11 Richard Pombo (R) 94
15 Tom Campbell (R) 88
19 George P. Radanovich (R) 94
21 William M. Thomas (R) 94
22 Andrea Seastrand (R)* 93
23 Elton Gallegly (R) 100
25 Howard McKeon (R) 100
27 Carlos J. Moorhead (R)* 100
28 David Dreier (R) 100
38 Steve Horn (R) 80
39 Edward Royce (R) 88
40 Jerry Lewis (R) 94
41 Jay Kim (R) 100
43 Ken Calvert (R) 100
44 Sonny Bono (R) 94
45 Dana Rohrabacher (R) 93
46 Robert K. Dornan (R)* 93
47 C. Christopher Cox (R) 88
48 Ron Packard (R) 93
49 Brian Bilbray (R) 94
51 Randy Cunningham (R) 81
52 Duncan Hunter (R) 94

COLORADO
3 Scott McInnis (R) 88
4 Wayne Allard (R)** 100
5 Joel Hefley (R) 94
6 Dan Schaefer (R) 100

CONNECTICUT
5 Gary Franks (R)* 88
6 Nancy L. Johnson (R) 81

DELAWARE
Michael Castle (R) 88

FLORIDA
1 Joe Scarborough (R) 94
4 Tillie Fowler (R) 92
6 Cliff Stearns (R) 88
7 John Mica (R) 100
8 Bill McCollum (R) 100
9 Michael Bilirakis (R) 94
10 C.W. "Bill" Young (R) 85
12 Charles Canady (R) 94
13 Dan Miller (R) 88
14 Porter J. Goss (R) 88
15 David Weldon (R) 100
16 Mark Foley (R) 94
18 Ileana Ros-Lehtinen (R) 73
22 E. Clay Shaw Jr. (R) 94

GEORGIA
1 Jack Kingston (R) 86
3 Michael "Mac" Collins (R) 94
4 John Linder (R) 100
6 Newt Gingrich (R) 100
7 Bob Barr (R) 94
8 Saxby Chambliss (R) 100
9 Nathan Deal (R) 81
10 Charles Norwood (R) 100

IDAHO
1 Helen Chenoweth (R) 88
2 Michael Crapo (R) 100

ILLINOIS
5 Michael Flanagan (R)* 81
6 Henry J. Hyde (R) 100
8 Philip M. Crane (R) 100
10 John Edward Porter (R) 75
11 Jerry Weller (R) 87
13 Harris W. Fawell (R) 100
14 J. Dennis Hastert (R) 100
15 Thomas Ewing (R) 100
16 Donald Manzullo (R) 94
18 Ray LaHood (R) 88

INDIANA
2 David McIntosh (R) 100
4 Mark Edward Souder (R) 75
5 Steve Buyer (R) 94
6 Dan Burton (R) 94
7 John T. Myers (R)* 100
8 John N. Hostettler (R) 88

IOWA
2 Jim Nussle (R) 94
3 Jim Lightfoot (R)* 94
4 Greg Ganske (R) 94
5 Tom Latham (R) 100

KANSAS
1 Pat Roberts (R)** 94
2 Sam Brownback (R)** 93
3 Jan Meyers (R)* 94
4 Todd Tiahrt (R) 94

KENTUCKY
1 Edward Whitfield (R) 94
2 Ron Lewis (R) 94
4 Jim Bunning (R) 81
5 Harold Rogers (R) 81

LOUISIANA
1 Bob Livingston (R) 88
3 W.J. "Billy" Tauzin (R) 93
5 Jim McCrery (R)* 100
6 Richard H. Baker (R) 100
7 James A. Hayes (R)* 85

MAINE
1 Jim Longley (R)* 80

MARYLAND
1 Wayne Gilchrest (R) 100
2 Robert Ehrlich Jr. (R) 94
6 Roscoe Bartlett (R) 100

MASSACHUSETTS
3 Peter Blute (R)* 73

MICHIGAN
2 Peter Hoekstra (R) 88
3 Vernon Ehlers (R) 94
4 Dave Camp (R) 100
6 Frederick S. Upton (R) 94
7 Nick Smith (R) 93
8 Dick Chrysler (R)* 100
11 Joseph Knollenberg (R) 94

MINNESOTA
1 Gil Gutknecht (R) 94
3 Jim Ramstad (R) 88

MISSISSIPPI
1 Roger Wicker (R) 100
3 G.V. Montgomery (R)* 100
4 Mike Parker (R) 100

MISSOURI
2 James Talent (R) 100
7 Melton D. Hancock (R)* 94
8 Bill Emerson (R) (died in 1996) 100

NEBRASKA
1 Doug Bereuter (R) 81
2 Jon Christensen (R) 88
3 Bill Barrett (R) 94

NEVADA
1 John Ensign (R) 88
2 Barbara F. Vucanovich (R)* 100

NEW HAMPSHIRE
1 Bill H. Zeliff Jr. (R)* 100
2 Charles Bass (R) 100

NEW JERSEY
2 Frank A. LoBiondo (R) 81
3 Jim Saxton (R) 94
4 Christopher H. Smith (R) 75
7 Bob Franks (R) 81
11 Rodney Frelinghuysen (R) 87
12 Richard A. Zimmer (R)* 73

NEW MEXICO
1 Steven Schiff (R) 80
2 Joe Skeen (R) 100

NEW YORK
1 Michael Forbes (R) 73
2 Rick Lazio (R) 87
4 Daniel Frisa (R)* 73
13 Susan V. Molinari (R) 92
19 Sue W. Kelly (R) 88
22 Gerald B.H. Solomon (R) 81
24 John McHugh (R) 81
25 James T. Walsh (R) 81
27 Bill Paxon (R) 100
30 Jack Quinn (R) 81

NORTH CAROLINA
2 David Funderburk (R)* 94
3 Walter Jones Jr. (R) 94
4 Fred Heineman (R)* 88
5 Richard M. Burr (R) 88
6 Howard Coble (R) 88
9 Sue Myrick (R) 88
10 Cass Ballenger (R) 100
11 Charles H. Taylor (R) 87

OHIO
1 Steve Chabot (R) 88
2 Rob Portman (R) 94
4 Michael G. Oxley (R) 100
5 Paul E. Gillmor (R) 73
6 Frank A. Cremeans (R)* 94
7 David Hobson (R) 88
8 John A. Boehner (R) 94
12 John R. Kasich (R) 94
15 Deborah Pryce (R) 94
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18 Bob Ney (R) 88
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OKLAHOMA
1 Steve Largent (R) 86
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4 J.C. Watts Jr. (R) 100
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2 Wes Cooley (R)* 100

PENNSYLVANIA
5 William F. Clinger Jr. (R)* 93
7 Curt Weldon (R) 85
8 James Greenwood (R) 88
9 Bud Shuster (R) 100
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19 William F. Goodling (R) 94
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1 Mark Sanford Jr. (R) 81
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TENNESSEE
1 James H. "Jim" Quillen (R)* 100
2 John J. Duncan (R) 88
3 Zach Wamp (R) 88
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7 Ed Bryant (R) 100

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3 Sam Johnson (R) 94
4 Ralph M. Hall (D) 94
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7 Bill Archer (R) 94
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1 James V. Hansen (R) 100
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** No longer a member of Congress.*
*** Now a U.S. Senator.*

Freshmen

Chamber Hosts New Lawmakers

A number of freshman members of Congress have been invited by the U.S. Chamber of Commerce to various Chamber-sponsored events in 1997. The goal has been to foster a dialogue among the lawmakers and the organization's staff and members on issues important to business.

Featured here are some of the freshman Democrats who attended a Chamber-sponsored reception on Capitol Hill on Feb. 5 and Republican freshmen who addressed business leaders recently at the Chamber.

Rep. Mike McIntyre, D-N.C., left, talks with Richard McDonnell, the Chamber's manager of grass-roots legislative affairs.

Rep. Jim Turner, D-Texas, center, talks with Doug Loon, left, the Chamber's director of congressional affairs, and Frank Coleman, the organization's vice president for media relations.

Rep. John Thune, R-S.D., addresses business leaders at a forum held at the U.S. Chamber.

Rep. Carolyn Maloney, D-N.Y., left, who with the Chamber co-hosted a reception for freshman Democrats, talks with Jody Olmer, the Chamber's director of domestic policy.

Above, Rep. Roy Blunt, R-Mo., right, talks with the Chamber's Lonnie Taylor, vice president for congressional affairs. Below, Rep. Allen Boyd Jr., D-Fla., left, discusses issues with William Sinclaire, the Chamber's director of tax policy.

At right, Rep. Bobby R. Etheridge, D-N.C., left, is greeted by David Voight, director of the Chamber's Small Business Council.

At left, Virginia Democratic Rep. Virgil Goode, left, talks with the Chamber's Bruce Josten, senior vice president for membership policy.

At right, Rep. Brad Sherman, D-Calif., left, talks about trade issues with the Chamber's Myron Brilliant.

GAIN UPDATE

GRASSROOTS ACTION INFORMATION NETWORK

U.S. Chamber of Commerce Federation

Move Slowly On Health Care, Chamber Urges

Business Federation Asks Lawmakers To Consider Impact Of Earlier Changes

The 105th Congress should forgo incremental health-care reforms—at least until the effects of health-care legislation passed last year can be evaluated—according to the U.S. Chamber of Commerce.

Many lawmakers appear eager to continue down the path of incremental health-care reforms begun by the 104th Congress, says Neil Trautwein, health-care manager for the U.S. Chamber.

Last year, Congress passed and President Clinton signed the Health Insurance Portability and Accountability Act of 1996. The statute, supported by the Chamber, helps make insurance more affordable and available to businesses and individuals.

But lawmakers later adopted provisions requiring parity between the annual and lifetime spending caps for physical- and mental-health benefits and dictating a minimum number of days of in-hospital coverage for mothers and their newborns. The Chamber opposed those mandates, saying that they would open the door to additional federal mandates and that they would increase insurance costs.

The organization is now urging Congress to consider the following before it takes up additional health-care measures:

- The cumulative effects of state and federal benefit mandates and anti-managed-care rules on the cost of health coverage.
- The consequent decline in the level of employer-provided health insurance.
- The ability of employees and others to obtain and maintain coverage.

Some lawmakers have proposed creating a federal program to subsidize the purchase of health coverage for children through vouchers or tax credits. Proponents of these "kid care" measures estimate that such a program would cost $3 billion to $4 billion a year.

The "kid care" bills pending in the House and Senate would require health plans that now cover federal employees under group plans to offer children-only policies.

Some proposals seek to discourage employers from dropping dependent coverage by denying the kid-care credits or benefits to employees if their employers were to drop dependent coverage.

Other proposals would require insurers to guarantee coverage for emergency-room visits or to specify insurance-coverage minimums for hospital stays. And they would require market interventions, such as initiatives that discourage managed care and uniform standards for health-plan-quality reporting.

"Those proposals will result in greater government involvement in the private health system and fewer employees covered through the workplace," says Trautwein. "As state experiences have shown, adoption of a series of benefit mandates can increase the cost of health-insurance coverage beyond the reach of many employers and individuals."

Rather than support more federal mandates, the Chamber plans to back a bill expected to be introduced soon by Rep. Harris W. Fawell, R-Ill., that would allow business and professional associations to offer mandate-free group health coverage to small businesses, says Trautwein. A similar measure is expected to be introduced soon in the Senate.

Small employers would be able to select health coverage from a variety of options, gaining the benefits of group coverage without the burden of state mandates.

Fawell introduced a similar bill during the previous session of Congress, but it did not come to a vote.

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.

Business Urges Congress To Close Loophole In Unfunded-Mandates Law

The U.S. Chamber of Commerce is strongly urging Congress to pass legislation to close a loophole in the Unfunded Mandates Reform Act of 1995.

The loophole relates to requirements proposed for the private sector.

The unfunded-mandates law requires the Congressional Budget Office (CBO) to analyze each bill approved by a House or Senate committee to determine whether it would impose federal mandates on state and local governments that would cost more than $50 million annually.

If the measure exceeds that threshold, a member of Congress may then raise a point of order against the bill. A point of order prohibits further floor action on the measure unless a majority of the House or Senate votes to waive the point of order.

The statute also requires the CBO to measure whether a new federal mandate on the private sector exceeds a cost of $100 million annually and to make that information public before the legislation can be approved.

Proposed major private-sector mandates are not subject to the point-of-order provision that is allowed for intergovernmental mandates.

Legislation to close this loophole was introduced in the Senate recently by Sen. Spencer Abraham, R-Mich., and in the House by Rep. Gary Condit, D-Calif. Known as the Mandates Information Act, the bills require that new mandates imposed by Congress on the private sector be subject to as much careful analysis and deliberation by the CBO as those mandates affecting state and local governments.

The House and Senate bills would allow a lawmaker to call for a point-of-order vote on any federal mandate that exceeds $100 million in annual costs to the private sector. They would require the CBO to make public all information concerning the impact and consequences of new federal mandates on the private sector.

Currently, the agency must report only that a private-sector mandate exceeds the $100 million annual threshold.

Federal mandates on the private sector continue to adversely affect consumers, small businesses, and workers through higher prices, fewer jobs, fewer goods and services, and reduced worker benefits, says Sally Jefferson, manager of regulatory policy for the Chamber.

The recently enacted federal minimum-wage increase, for example, will cost private-sector employers more than $12 billion over the next five years, according to the CBO. Thousands of jobs, particularly entry-level positions, will be lost, according to various studies on the effects of minimum-wage increases.

Federal mandates and their implementing regulations impose the heaviest burden on small businesses, Jefferson notes. According to the Center for the Study of American Business at Washington University in St. Louis, the annual regulatory cost per employee for businesses with fewer than 20 workers is about $5,500.

The Chamber's 1996 survey of employee-benefit costs indicates that benefits mandated by the federal government alone account for 10 percent of the payroll of businesses with fewer than 100 employees.

With intensified efforts to curtail federal spending, the imposition of new mandates on the private sector is likely to escalate, Jefferson says.

Proposed mandates before Congress include bills to expand the Family and Medical Leave Act from businesses with 50 or more workers to those with 25 or more employees and to require employers to provide an additional three working days of leave to attend school functions or for routine visits to a doctor.

Another bill would require federal contractors with contracts over $10,000 to pay an hourly wage equivalent to the federal poverty-level wage for a family of four or $7.50 an hour—whichever is greater—to every worker regardless of the region of the country in which he or she lives and the size of his or her family.

"Although the current unfunded-mandates law has been successful in enhancing the quality of congressional deliberations on proposed federal mandates as well as in limiting intergovernmental mandates," says the Chamber's Jefferson, "it has had little effect in the area of private-sector mandates. We need to close this loophole."

Call your senators and representative and ask them to support the Abraham and Condit bills. Lawmakers can be reached through the Capitol switchboard at (202) 224-3121.

Chamber Cautions Against Binding Restrictions On 'Greenhouse Gases'

Severe consequences could result if U.S. negotiators agree to legally binding restrictions on "greenhouse gases" during upcoming United Nations talks on global climate change, according to the U.S. Chamber of Commerce.

The Chamber cites studies indicating that hundreds of thousands of U.S. jobs could be lost and that costs for gasoline, fuel oil, and electricity could rise sharply if such an agreement were reached.

Greenhouse gases—primarily carbon dioxide—are emitted by the burning of fossil fuels in such sources as automobiles, electric power plants, and industrial boilers.

A treaty among the largest industrialized countries during a 1992 meeting of the United Nations' Framework Convention on Climate Change originally called for voluntary, nonbinding measures to limit greenhouse gases to 1990 levels by the end of this century.

Last summer, however, negotiators from the countries that signed the 1992 agreement decided to take a more-stringent regulatory approach and impose legally binding timetables and enforceable numerical caps on emissions.

That plan, known as the "Berlin Mandate," has the support of the Clinton administration, but the Chamber says the United States has more to lose than most other developed nations because of its high energy use.

Several major European nations, including Britain and Germany, can achieve significant carbon dioxide emission

reductions simply by converting aging coal-fired power plants to natural gas, a project those nations had planned to complete before the U.N. plan was proposed.

Meanwhile, developing nations such as China, India, Brazil, and Mexico are exempt from any meaningful curbs on their emissions. And these fast-growth nations are where greenhouse-gas emissions will be greatest in future years, according to the International Energy Administration.

The Berlin Mandate calls for agreement on mandatory cuts in fossil-fuel use by December 1997. Participating nations are scheduled to meet in Kyoto, Japan, starting Dec. 1.

The agreement is being drafted by a working group of negotiators from key countries. Most informed observers, says Stuart Hardy, manager of environment policy for the U.S. Chamber, expect an agreement that requires each developed nation to cut greenhouse-gas emissions by 10 to 15 percent by 2010.

According to several studies, any reduction of this magnitude would require fuel rationing in the United States or, more likely, a broad-based energy tax designed to reduce consumption of fossil fuels. Such a tax would trigger a drop in the gross domestic product (GDP) of 2 to 3 percent and would cost 600,000 jobs annually, according to a recent study by DRI/McGraw Hill.

Another study, by William Nordhaus, Yale University economics professor, pegs the cost of U.S. compliance at a staggering $7 trillion.

While numerous studies show that job losses and other adverse economic consequences are unavoidable if cuts in carbon dioxide emission levels are mandated, the science prompting such cuts is far from certain.

Some climatologists believe that carbon dioxide, methane, nitrous oxide, and other gases have contributed to a "greenhouse effect," trapping solar heat in the Earth's atmosphere and causing potentially disastrous environmental consequences.

Other climatologists believe that climate change is driven largely by natural phenomena and that the climate has always been subject to warming and cooling trends.

Adding to the confusion are satellite data recently analyzed by NASA that show a slight cooling trend since the satellites were launched 17 years ago.

Whatever the scientific verdict turns out to be, the debate over the Berlin Mandate has very little to do with the environment, says Hardy.

He notes that emissions from industrialized countries are declining as a percentage of world emissions while the developing world will account for 60 percent of global carbon emissions soon after the turn of the century.

While the Chamber views global climate change as a serious matter, it opposes mandatory emission reductions and believes that any solution should be voluntary and applied worldwide, not just to industrialized countries.

"The debate increasingly is about jobs, business, and the economy," Hardy says. "Because if we unilaterally impose carbon-reduction commitments on ourselves, with no commitment from developing nations, the net result is a weakened U.S. economy and the export of business investment and jobs to nations that have no constraints on fuel use.

"The outcome would be a 'lose-lose' situation—significant economic loss with no corresponding environmental gain."

Testifying Before Congress

Testifying before a congressional committee is among the most effective ways of influencing legislation that is potentially important to your business operations. In addition, testimony generally results in substantial publicity.

Some highly qualified business people have declined opportunities to testify before Congress out of fear, but such trepidation is typically unfounded if you have expertise in the subject being considered.

A congressional hearing is merely a forum where individuals with interests and experience relevant to pending legislation air their concerns and respond to questions from committee members. Congress views hearings as important barometers of public opinion.

Although most congressional hearings are held on Capitol Hill, Congress sometimes holds field hearings around the country to provide citizens who cannot travel to Washington with opportunities to voice their opinions.

Whether a hearing is held in the Capitol or elsewhere, it has an agenda, and witnesses are provided limited time to comment. Still, schedules are somewhat fluid because hearings frequently are disrupted by congressional votes and witnesses who exceed their allotted times for speaking.

If you have the opportunity to testify, keep these tips in mind:

- Arrive at the beginning of the hearing so that you can hear what the other witnesses say. It is helpful to make notes on comments preceding your remarks that you believe need to be clarified or rebutted. You can respond to other witnesses' comments either during your testimony or in additional written comments submitted after the hearing.

- Limit your testimony to the aspects of an issue that concern you. Be as brief as possible, but be specific.

- When possible, use visual aids—signs, posters, and charts, for example—to clarify and enhance your comments.

- Don't use inflammatory language, even if you are responding to accusations or charges leveled by those on the other side of the issue. Defend your position, but don't let your anger consume you.

If you would like to testify on an issue, contact the Chamber's Grassroots Action Information Network at (202) 463-5604. A staff member will connect you with the appropriate Chamber issue specialist. Your expertise could be extremely valuable to the entire business community.

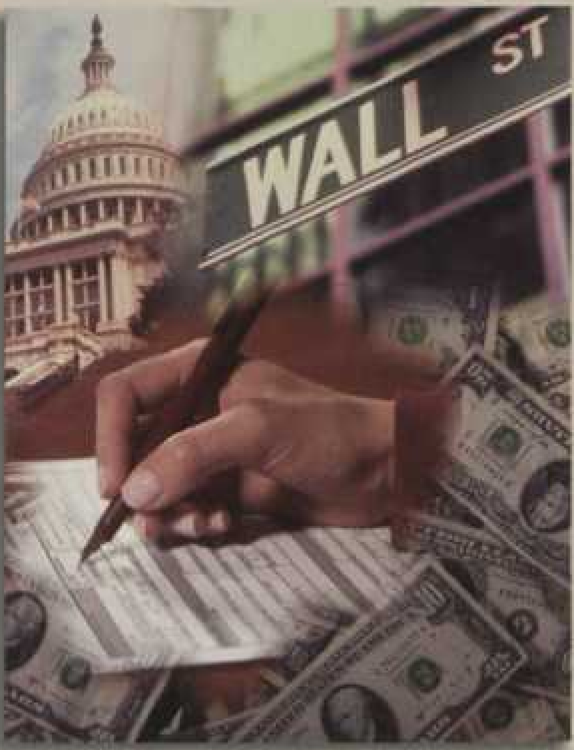
Chamber Seeks Pension-Law Changes To Ease Burdens On Small Firms

The U.S. Chamber of Commerce will press the 105th Congress to make changes in pension laws to ease the administrative burdens on employers and to encourage the establishment of pension plans by small businesses.

The Chamber is seeking repeal of the so-called "top-heavy rules," which are particularly onerous for small employers. The rules impose administrative and contribution requirements on small employers whose key employees accumulate 60 percent or more of a company retirement plan's assets.

"Those requirements are causing many small companies to forgo pension-plan sponsorship," says David Kemps, manager of benefits policy for the Chamber.

The Chamber will also push for changes to the new SIMPLE (Savings Incentive Match Plan for Employees) pension-plan rules enacted during the 104th Congress. The SIMPLE plan, designed specifically for small businesses, was intended to be easy to set up and administer, but employee contributions to the plan are limited to $6,000 a year.



Among the changes the Chamber wants is an increase in the contribution limit to bring it in line with other plans, such as 401(k) plans, which have a contribution limit of $9,500 a year for each employee.

Additionally, the organization will be pursuing changes to the defined-benefit pension-plan rules to ease the burdens on employers who sponsor such plans. Defined-benefit plans require an employer to provide a specific benefit for each employee.

Among the changes sought in the defined-benefit plan rules are measures that would:

- Allow companies to fund their pension plans better by eliminating the top-funding limit of 150 percent of a plan's liability—what it owes participants—and by allowing employers to fund their plans based on projected rather than current liabilities.
- Allow employees to make tax-deferred contributions to their defined-benefit plans. Currently, such contributions are not allowed on a pre-tax basis.
- Reduce Pension Benefit Guaranty Corp. premiums for healthy pension plans. The PBGC guarantees pension benefits up to certain levels for defined-benefit plans and charges a premium to insure the agency against plan losses.

"These and other proposed changes," says the Chamber's Kemps, "should go a long way toward restoring some attractiveness to the private pension system and providing employers with appropriate incentives for sponsoring retirement plans for their employees."

Kemps says the Chamber favors continuing efforts to change the federal Employee Retirement Income Security Act, which governs pension plans, and to revise the Internal Revenue Code to peel away the myriad complex statutory and regulatory provisions that hamper plan sponsorship. For instance, the current limit on employee compensation of $160,000 for determining the amount of pension contributions that can be made and benefits that can be received should be raised to pre-1993 levels, the Chamber says. President Clinton's 1993 budget law reduced the compensation level from more than $230,000 to $160,000.

Several pension-reform measures already have been introduced in the 105th Congress, and Senate Democrats have made pension reform one of their top priorities. They have formed a task force to develop their agenda on pension issues. Republicans in the Senate also have formed a task force to develop a comprehensive pension-reform package.

The Chamber is examining several pension-reform bills, including legislation sponsored by Senate Minority Leader Thomas A. Daschle, D-S.D. Among the few provisions in his bill that the Chamber supports are measures that would:

- Allow a tax credit of up to $500 for small employers to help defray the costs of establishing a pension plan.
- Allow self-employed individuals to make contributions to their pension plans as both employer and employee and exceed the $9,500 employee contribution limit.
- Eliminate certain filings related to pension plans required by the U.S. Department of Labor.

The Daschle bill, however, contains several provisions that the Chamber opposes. One provision would require employers who match their employees' contributions to 401(k) plans to make such matching contributions after their workers have been in the plan for just three years instead of the current five-year requirement. Another would increase the employer contribution requirements for SIMPLE pension plans.

In the House, Reps. Rob Portman, R-Ohio, and Benjamin L. Cardin, D-Md., both of whom championed pension simplification in the 104th Congress, are expected to work together again to try to enact further pension-simplification measures.

The Chamber is working with a coalition of 30 organizations known as the Retirement Savings Network on a variety of proposals. The group will soon present its "Pension Simplification 2" package to Portman and Cardin for consideration.

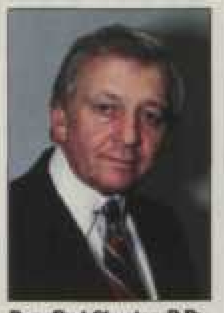
The Chamber, says Kemps, remains committed to enacting sensible pension-reform legislation and will continue to oppose bills that would increase the administrative and financial burdens on plan sponsors, especially small businesses. It will oppose attempts to impose costly and redundant filing requirements on plan sponsors, as well as benefit mandates that would raise the costs of plan sponsorship.

■ Transportation

Action Urged On Trust-Funds Bill

The U.S. Chamber of Commerce is urging the House of Representatives to approve legislation to remove the federal transportation trust funds from the federal budget.

The Chamber-backed legislation is sponsored by the chairman of the House Transportation and Infrastructure Committee, Rep. Bud Shuster, R-Pa., and is expected to be considered by the House in mid-April.



Rep. Bud Shuster, R-Pa.

The measure would prohibit the use of money in federal accounts that were set up to finance specific transportation projects except for the purpose for which taxes were collected. Shuster's legislation covers the highway, airport and airway, inland waterways, and harbor-maintenance trust funds.

The House last April passed an identical bill sponsored by Shuster by a 284-143 vote.

Surplus money in the trust-fund accounts has traditionally been used to offset the federal budget deficit even though Congress established the funds to finance transportation improvements. While some of the money in the funds has been spent for improvements, Congress has refused to appropriate all the money despite the need for infrastructure repairs.

Consequently, surpluses have accumulated in the funds, which cumulatively collect more than $30 billion annually through such means as a tax on motor fuels, an airline facility charge commonly known as the ticket tax, and aviation and waterways fuel and cargo excise taxes.

Removing the funds from the budget, says the Chamber, will help address the more than $450 billion in capital needs identified by the U.S. Department of Transportation for airports, highways, mass transit, and waterways.

A similar bill is expected to be introduced in the Senate, but the timing for introduction is uncertain.

Call the Capitol switchboard at (202) 225-3121 to urge your representative to vote for the Shuster bill to take the transportation trust funds off budget.

■ Payroll Taxes

Deposit Rule Relief Sought

The U.S. Chamber of Commerce is urging Congress to vote soon on legislation that would permit small-business owners to continue depositing payroll taxes manually.

Under current law, small businesses must begin making their tax payments electronically beginning July 1. The law applies to all firms that paid more than $50,000 in employment taxes in 1995.

Originally, the effective date of the deposit requirement was Jan. 1, but the deadline was delayed to July 1 after a storm of protest from small-business groups, including the Chamber.

The Chamber is supporting a bill sponsored by Rep. Richard "Doc" Hastings, R-Wash., that would make the electronic deposit of payroll taxes optional for small businesses that will be subject to the requirement. A similar Senate bill is expected to be introduced soon by Sen. Don Nickles, R-Okla.

The Chamber has several concerns with the electronic-deposit requirement, including the possibility that the Internal Revenue Service could gain access to taxpayers' bank accounts and the additional costs to firms of making such deposits.

With the July 1 deposit deadline looming, the Chamber is asking its members to contact their representatives to urge swift approval of the Hastings bill and to urge their senators also to make electronic filing of payroll taxes optional for small firms.

Contact your lawmakers through the Capitol switchboard at (202) 224-3121.

■ Amendment

Budget Proposal Defeated

The Senate's recent vote to reject a proposed balanced-budget amendment to the Constitution was decried by the U.S. Chamber of Commerce.

The measure to require that the annual federal budget be balanced fell one vote short of approval. The March 4 vote was 66-34 in favor of the amendment, but constitutional amendments require approval of two-thirds of the members present and voting in each house of Congress. Senate proponents needed 67 votes in favor of the measure to pass it.

"By refusing to support this amendment, a select group of senators, pushed by President Clinton, stood in the way of real progress to balance the federal budget and ignored the will of the American people," said Bruce Josten, the Chamber's senior vice president for membership policy. "This was politics at its worst."

The Chamber is asking its members to thank senators who voted for the amendment and to express their disappointment to those who voted against it. All 55 Senate Republicans backed the proposal, along with 11 Democrats. Several Democrats who previously voted for the amendment voted against it this time. (To find out how your senators voted, call their offices by dialing the Capitol switchboard at 202-224-3121.)

The proposal considered March 4 would have required Congress to approve yearly federal budgets with spending no greater than anticipated revenues. Under the amendment, a three-fifths majority of both houses of Congress could waive the balanced-budget requirement and approve a specified amount of deficit spending. A constitutional majority—51 votes in the Senate and 218 in the House—would be required to raise taxes.

The proposal has been narrowly defeated three times in the Senate in the past two years. The votes were one short of passage in March 1995 and two short in June 1996.

If proposed amendments to the Constitution are approved by the required majorities in the House and Senate, they then require approval by 38 of the 50 state legislatures.

■ Anniversary

Chamber Law Firm Marks 20 Years

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, is celebrating its 20th anniversary in 1997.

One of the legacies of outgoing Chamber President Richard L. Lesher, the litigation center has represented the interests of business before the courts at all levels in nearly 400 cases since its founding in 1977.

The center became an effective voice for business in the courts through a four-part program, consisting of:

■ Initiating litigation that challenges anti-business federal or state statutes and regulations.

■ Filing briefs in support of other business litigants. These so-called friend-of-the-court briefs alert the courts to the wide-ranging implications for business of particular cases.

The NCLC legal team: Mona Zeiberg, left, senior labor counsel; Stephen A. Bokat, executive vice president; and Robin Conrad, vice president.

■ Conducting moot courts to help prepare attorneys who will argue business cases before courts and federal agencies.

■ Working with the media by providing statements on business legal cases and by hosting an annual briefing on business cases before the Supreme Court.

Among the center's recent court victories were cases in which the Supreme Court ruled for the first time that a punitive-damages award was excessive and in which a U.S. Court of Appeals struck down an executive order from President Clinton that banned federal contracts to firms that had used permanent replacements for striking workers.

For more information about the NCLC, call David Roth at (202) 463-5337.

U.S. Chamber Member Benefits

Here are some of the numerous products and services offered by the U.S. Chamber.

Retirement Plans For Member Firms

The U.S. Chamber and Fidelity Investments are offering a package of retirement plans and services that are designed to be accessible, affordable, and convenient for Chamber members.

The products are intended primarily for businesses employing fewer than 100 workers. They include 401(k), Keogh, SEP-IRA, and SIMPLE (Savings Incentive Match Plan for Employees) plans.

Fidelity provides investment-management and record-keeping services as well as materials for employers to use in communicating with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7526).

Airborne Express Discounts Available

Through a special arrangement between the U.S. Chamber and Airborne Express, Chamber members can save up to 37 percent on the cost of overnight shipments to nearly anywhere in the United States and to the more than 200 other countries served by Airborne. The company offers round-the-clock customer service and computerized package tracking.

To obtain the discounted service, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit for using Airborne Express.

Business Seminars

"Better, Faster & Efficient: 10 Steps To Improving Your Business Through Technology" will be the topic of a satellite seminar produced by the U.S. Chamber's Quality Learning Services (QLS) Department and the American Society for Training and Development in Alexandria, Va. The seminar will air April 1 from 1 to 3 p.m. Eastern time.

Cheryl Currid

The presenter will be Cheryl Currid, author of *Cheryl Currid's Guide to Business Technology.*

Other seminars in the spring 1997 series, with the date, topic, and presenter of each, are:

April 15—"Keeping 'First Things First™': The Secret to Real Productivity," A. Roger Merrill, vice president of Covey Leadership Center Inc., a leadership-development firm in Provo, Utah.

April 29—"Be Direct!: Make Your Direct Marketing & Advertising Pay," Lester Wunderman, founder of Wunderman, Cato, Johnson, a New York City advertising agency. This program is sponsored by Random House Inc.

May 6—"Guerrilla Marketing for Your Small & Growing Business," Jay Conrad Levinson, author and co-founder of Guerrilla Marketing International, Inc. of Mill Valley, Calif. This program is sponsored by the Edward Lowe Foundation of Cassopolis, Mich., and *Home Office Computing* magazine.

May 20—"It's About Sales: Develop Selling Skills—Even If You're Not In Sales!" Molly Breazeale and Daniel M. Handley, Dale Carnegie Training, Garden City, N.Y.

June 3—"Mission Possible: Creating a World-Class Organization While There's Still Time," Ken Blanchard, chairman of Blanchard Training and Development, Inc. of Escondido, Calif., and author of *The One Minute Manager.*

For more information on the series, call the QLS fax-on-demand service at 1-800-851-8705 and enter 190. If you don't have a fax and would like more information, call QLS at 1-800-835-4730 or (202) 463-5940.

To find out how your organization can become a host site or to locate a site in your area, contact QLS at the numbers listed above.

Software Program On Human Resources

A software program being offered by the U.S. Chamber's Small Business Institute to help small firms deal with employment-law rules and regulations is now available at a discount to U.S. Chamber members.

The $499 HR Task Counselor, a Windows-based program that organizes human-resources functions, is available to U.S. Chamber members at a 20 percent discount.

The program contains a law library, models for employee handbooks and job descriptions, and a system to track employees from the hiring stage to the termination stage. It can help companies prepare essential human-resources documents, such as performance reviews and schedules for leave.

Most important, the program contains interpretive guides on employment laws such as the Americans with Disabilities Act, the Fair Labor Standards Act, and the Family and Medical Leave Act.

For a free demonstration copy of HR Task Counselor, call 1-800-772-4606. A catalog of other small-business products and services offered by the Chamber's Small Business Institute can be obtained free by calling 1-800-USCC-SBI (1-800-872-2724).

Business Cases In The Courts

The National Chamber Litigation Center, the U.S. Chamber's public-policy law firm, publishes *The Business Counsel* to keep companies informed about important business-related court cases in which the NCLC is involved.

The quarterly publication, along with a listing of NCLC cases—published eight times a year—is free to NCLC members.

For more information about NCLC, call David Roth at (202) 463-5337.

Studio Rentals

The U.S. Chamber's television facilities in Washington, D.C., can be rented for videoconferences, professional briefings, and other programs.

For more information, contact Suzi Montes de Oca at (202) 463-5921.

Policy Briefings

The U.S. Chamber's Briefing Center designs and conducts meetings during which representatives of businesses, trade associations, and state and local chambers of commerce receive specialized presentations on public-policy issues affecting their respective organizations.

For more information, call (202) 463-5414.

Help For Associations And Nonprofit Organizations

Two new publications are available from the U.S. Chamber's Office of Association Relations.

Associations and the Antitrust Laws provides guidelines for operating association and nonprofit-organization activities within the bounds of federal antitrust laws. The publication, No. 5152, is $25 for Chamber members and $30 for nonmembers.

Guide to the New Accounting Rules details the requirements for complying with recently adopted financial accounting standards for not-for-profit organizations. The guide, publication No. 0480, is $48 for Chamber members and $58 for nonmembers.

The publications can be ordered by sending a check—payable to the U.S. Chamber—to the Chamber, OAR, 1615 H Street, N.W., Washington, D.C. 20062-2000, or by calling the Office of Chamber of Commerce Relations at (202) 463-5560.